1964

CPA, 1964

American Institute of Certified Public Accountants

THE JANUARY 1964

CPA

***nc* 1964 shapes up:** For a preview of Institute plans for the new year, take a look at John L. Carey's column on page 6.

. . . in accounting principles A "white paper" is in preparation on the proposal to establish the authority of the opinions issued by the Accounting Principles Board. The new executive committee has asked the executive director, in collaboration with committee members Robert Witschey and Herman Bevis, to draft a document to aid the Council in considering the proposal at its meeting early in May.

In response to mounting professional and public interest, the APB has decided to give more information on its activities; for details, see page 5.

. . . in professional relations At a far-ranging meeting last month, the committee on professional ethics took action on such questions as management services and the applications of the new independence rule. See story on page 11.

. . on new frontiers A new committee has met with a liaison group from the Financial Analysts Federation. The meeting agreed upon several co-operative projects to improve financial reporting. An example: mutual efforts to discourage the use of the term "cash flow" by financial services.

Looking farther out on the frontiers of the profession, the executive committee endorsed the idea of building the entire 1964 annual meeting around the theme of planning for the profession's long-range future.

. . . and on the Washington scene In taxes, the committee on Federal taxation has commented extensively on pending major revenue legislation. Members may request a copy of these comments from the Institute. For a forecast of the committee's expanded program in the months ahead, see story on page 2.

Despite strong opposition from the Treasury Department and the Institute, the Senate has passed a bill (S 1466) to grant automatic admission to lawyers to practice before all Federal agencies. In a statement filed with Congressional committees, the Institute declared that it was not in the public interest to foreclose the agencies from establishing their own procedures in the light of their own particular needs. The legislation may also pose a threat to the CPA's tax practice by providing a precedent for transferring the right to determine who can practice before Federal agencies to state authorities. Further steps are planned to dissuade Congress from passing the bill.

The CPA, January 1964. Published monthly, except July-August when bimonthly, for membership of the AICPA, Inc. Vol. 44, No. 1. Publication and editorial office: 666 Fifth Ave., New York, N.Y. 10019. Second-class postage paid at New York, N.Y.

Expanded programs planned in several phases of tax practice by AICPA committee

Federal tax group will explore professional responsibilities, estate planning, public relations

Expanding frontiers for CPAs in tax practice are reflected in the Institute's plans.

The agenda of the committee on Federal taxation for 1963-64 and following years shows both the breadth and the diversity of continuing projects and of new activity under consideration:

In *legislative recommendations,* not only commenting directly on proposed programs but also exploring possibilities for recommending legislation meeting CPAs' specific problems in taxation;

In *administration,* considering a number of projects ranging from review of income tax forms to studies on IRS administration;

In *responsibilities in tax practice,* developing guidelines for practitioners;

In *estate planning,* promoting CPAs' involvement;

In *public relations,* rendering greater assistance to the public and profession through educational and liaison programs.

Legislation. In addition to its regular activity of commenting on tax bills, the committee on Federal taxation will also develop its own recommendations for amendments to the Internal Revenue Code. It will give particular attention to the needs for amendments to the Revenue Act of 1962 and legislation adopted or proposed by the present Congress. The committee will study several areas where it thinks legislation meeting CPAs' special tax problems should be investigated. It will consider proposals affecting CPAs' practices, such as professional incorporation and, if necessary, extensions of time for filing individual tax returns. And the committee will study the need for determining whether administrative interpretations, particularly new ones, may be tantamount to legislation by administrative fiat.

Administration. In addition to its normal practice of reviewing IRS actions such as regulations and rulings, the committee will go into these areas or activities: *Review of income tax forms* — develop suggestions for changes in income tax forms (this program has taken on added significance since the Service added ADP to its operations); *Publication of revenue rulings, revenue procedures, etc.*—develop a study to determine the extent to which the IRS has fulfilled its commitment to Congress and taxpayers generally in providing published administrative rulings for the guidance of taxpayers; *"No rulings" procedure*—develop a study to determine whether the IRS has increased the number of areas in which it will not issue private rulings without publicly stating its position through revision of Rev. Proc. 60-6, 1960-1 CB 880; *Engineering and valuation branch* —develop a study to determine whether the scope of the engineer's function seriously affects administrative settlement procedures, for example, at the informal conference level; *Administrative settlement procedures*—develop recommendations for strengthening the administrative settlement procedures at all levels; *Liaison with IRS* — investigate feasibility of establishing liaison groups with regional commissioner and/or district directors on broader basis than problems of practice standards.

Responsibilities in tax practice. The committee soon will continue its new project for issuing the series of statements designed to guide CPAs in the many perplexing questions of responsibilities which can arise in tax practice.

Estate planning. The committee will seek to implement CPAs' activity in this area by developing a portfolio which would encourage (1) CPAs to participate in this type of work, (2) state societies to develop estate planning programs and (3) CPAs to participate in estate planning councils. It may also establish a procedure by which CPAs can confidentially question the committee on what they properly may or may not do in this area.

Assistance to the public and the profession. For the profession the committee will consider the development of studies in Federal taxation: (1) to assist "audit staff" in recognizing the existence of possible tax problems and tax-planning opportunities and (2) to assist in the self-education of tax personnel at selected levels of experience.

In relations with the taxpaying public the Institute will study a proposal to develop a co-operative program with the state societies and the IRS to upgrade the content of the Service's Teaching Taxes Program to an "adult education" level and arrange for CPA lecturers to present the new courses. The program would be designed to: (1) enhance the public prestige of CPAs; (2) stimulate co-operation between CPAs and the IRS; and (3) place the CPA in a position of advocating taxpayer self-help and thus better compliance.

The committee will encourage further liaison meetings with the American Bar Association's Section of Taxation.

Accounting Principles Board adopts new policy on publicizing its activities

Wide public and professional interest will be met with (1) publication of exposure drafts; (2) speaking program

The Accounting Principles Board on November 15 decided on wider exposure of its pronouncements.

This open door policy has gone into operation with the latest APB pronouncement, the tentative draft opinion on reporting of leases in financial statements.

Rather than going to the more normal number of about 2,000 people, this exposure draft was sent to some 3,600 people, including the presidents of all companies listed on the New York Stock Exchange. The cutoff date for receiving their comments on the draft was set at December 31, 1963. In addition, the full text of the draft is presented in the January issue of *The Journal* (p. 70).

This presentation includes an explanation of the way in which the new policy works. The explanation traces the course of an accounting principles question from its initial formulation in an accounting research study, through its further refinement in one or more tentative draft opinions, up to its ballot draft form.

Exposure will take place after the board has achieved tentative agreement on an opinion but before it is formally issued as an opinion of the Accounting Principles Board. Exposure of the tentative draft of the opinion will take place in this way: *The CPA* will alert the members to imminent publication of a draft in *The Journal.* The full text of the draft will appear in *The Journal;* and shortly thereafter, the draft will be widely exposed to a representative group of interested persons by the APB.

The draft may also be released to the press but there will be no "scoops"—nothing will be issued to the press before the draft appears in *The Journal.* Tight security will clamp down on a ballot draft, which will be distributed only to members of the APB. If two-thirds of the Board votes for this draft, it will be promulgated as an Opinion of the Accounting Principles Board.

The new policy comes at a time when the broad business community has shown a rapidly quickening interest in the whole area of accounting principles. The Board is considering means of fulfilling this interest. Chairman Alvin R. Jennings reported on the heavy turnouts at forums on accounting principles of the type sponsored by the investment banking firm of Hayden, Stone and Co. The Board will consider a public-speaking program for Board members and qualified Institute members aimed at explaining the implications of accounting principles to the profession's business clients.

Treasury would foreclose widespread use of professional service corporations

The Treasury appears to have limited the general usefulness of state-legislated "professional corporation" or "professional association" statutes designed to enable professionals to attain corporate Federal tax status.

Proposed Treasury regulations published in the December 17, 1963 issue of the *Federal Register* provide rules to clarify the tax treatment of professional service corporations, associations, trusts, and other organizations. In amending Regulations Section 7701, the Treasury notes that "Local law may provide for the creation of specialized types of organizations [e.g., professional service corporation or association] but the Internal Revenue Code, rather than local law, establishes the tests and standards which will be applied in determining the classification in which such an organization belongs." The proposed regulations further indicate that "The labels applied to specialized types of organizations which may now or hereafter be authorized by local law are in and of themselves of no importance in the classification of such organizations for the purpose of taxation under the Internal Revenue Code."

The Treasury notes that a professional service organization will be treated as a corporation for Federal tax purposes only if it has sufficient corporate characteristics to be classifiable as a corporation; for example, six basic characteristics of a corporation are: associates, business carried on for profit, centralization of management, continuity of life, limited liability, and free transferability of interest. Based on the Treasury's commentary on the basic corporate characteristics, it would appear that a professional service organization would find it difficult to have a sufficient number of the corporate characteristics to permit it to be classified as a corporation for Federal tax purposes.

A report on the Institute's policy that professional public accounting practices should not be incorporated appears in the February 1963 issue of *The CPA.* This decision regarding professional incorporation was reached by Council at its spring meeting in 1961.

FROM THE

EXECUTIVE DIRECTOR

JOHN L. CAREY

A New Year: Preview and Promise

JANUARY 1 opens the traditional season for peering into the year ahead — and pledging what we will accomplish in it.

Two months ago my column gave a division-by-division answer to the members who asked: "What do all these people (on the Institute's staff) do?" This month I'll describe very briefly what "all these people" — and the committees they serve — plan to do in 1964.

Accounting Research. A lot of effort will be devoted to the executive committee's proposal designed to clarify the status of APB opinions. Well before its spring meeting, the Council will have an opportunity to consider a white paper explaining the proposal. The speeches, papers and letters that the proposal has already generated indicate the profession is engaging in a "Great Debate" over this keystone question on the status of accounting principles.

The APB has just released an exposure draft of its opinion on leases and has a number of research studies, which are often followed by APB opinions, in various stages of preparation: accounting for income taxes, accounting for cost of pension plans, intercorporate investments, and accounting for foreign operations.

In addition, the staff expects to get close to completion of the "inventory" of accounting principles believed to be generally accepted at the present time.

Technical Services. The auditing committee will train its attention on such important questions as auditing investments in other enterprises, procedures for supervision of audit staff, and the CPA's role in checking on compliance with Government agency regulations. The management services committee will continue its study of the scope of a CPA's practice in this area and may propose standards of competence. The Federal taxation committee and staff will develop statements clarifying the CPA's responsibility in tax practice and will consider issuing a series of research studies on specific problems encountered in practice.

A profusion of publications meeting practitioner's needs should flow from the technical services staff. The MAP series should be augmented by four bulletins — on maintenance of files, compensation, motivation, and the second annual expense and revenue study. A comprehensive handbook on *Accounting Services for Business Management* will be published shortly. A number of audit guides are planned.

The technical information service, which expects to answer even more than the 2,500 questions handled last year, will bring out a book this year based on its replies.

Publications. The first issue of *Management Services* will appear in March, offering the profession an authoritative journal in the management services area. *The Journal of Accountancy* expects increases over last year's record advertising revenues ($265,000) and circulation (over 100,000). *The CPA* will continue to develop its new approach of providing ideas and information of direct interest and benefit to members.

Professional Development. This program expects another year of growth — ten new courses, and attendance up to nearly 13,000 as compared with fiscal 1963's record 9,000 — all while turning the corner from the red into the black on the Institute's budget.

Education. Activities will include: work with the Association of CPA Examiners on a new version of the Uniform Statistical Information Questionnaire, which should provide valuable insights into the reasons for success on the Uniform CPA Examination; reports on case material now available to professors and on the uses of the Professional Testing Program; planning for a new career film and leaflet; and a draft of the Common Body of Knowledge study.

Professional Relations. Two separate membership promotion efforts have been targeted, one for new CPAs, another for the older professionals in industry, government and teaching. Several projects are under consideration for developing more information about international accounting needs and practices.

The committee on small business is exploring activities which could help CPAs better assist their small company clients. In professional ethics, the committee and staff expect to process over one hundred formal inquiries; a revision of the book, *Professional Ethics of Certified Public Accountants* will go on the presses by the end of 1964.

Washington Office. Division plans and the plans of the committee on relations with the Federal Government indicate the impact of Government on accounting. The pending SEC legislation not only entails reporting requirements for more industrial and marketing companies, but it also raises major accounting questions for service organizations such as banks and insurance companies.

The committee and the Washington office will work with such agencies as: REA — on a revised guide on minimum accounting requirements for borrowers; the Small Business Administration — on compliance forms for SBIC audits; the HHFA — on cost certifications; and the Department of Labor — on financial reports for welfare and pension funds.

Executive Office. Several projects are being explored on the frontiers of the profession. The long-range objectives committee is finishing up its three-year series of discussions with thought-leaders in and out of the profession. The results of these explorations into the profession's future will be summarized in a book to be published next fall.

A new committee has started developing closer relations with financial analysts, a group with increasing influence in the financial community.

The new Institute retirement program, offering low-cost benefits similar to those in the life insurance program, will be vigorously promoted with a mailing to all firms and practitioners this spring.

This summary mentions only some of the programs, most of them new, which the Institute committees and staff will undertake this year. How well do they match up with your New Year's Day professional resolutions?

Report Available on Bank Holding Companies

The committee on auditing procedure is continuing its study of reports on bank holding companies. Members who are interested may request a copy of a current memorandum on this subject from Robert N. Sempier, Manager, Auditing Procedure, AICPA, 666 Fifth Avenue, New York, N. Y. 10019.

Accountants Around the World Express Condolences to Institute on Kennedy's Death

As a shocked world learned of the late President John F. Kennedy's assassination, many of the professional accounting organizations abroad thought to express their sorrow and dismay to the Institute. Among the countries whose societies sent messages of sympathy to the Institute were: Chile, Colombia, Costa Rica, Cuban accountants-in-exile, Ecuador, England and Wales, France, Mexico, Peru, Puerto Rico, Scotland and South Africa.

Reminder: In planning audits, and tax returns, check for compliance with new equal pay law

Practitioners now have an opportunity when conducting audits or preparing tax returns to perform another service for their clients—to check their readiness to comply with the Equal Pay Act of 1963. At the same time, practitioners should make a note to give themselves a check-up, too; public accounting firms are subject to the new law.

For most employers the law goes into effect on June 11, 1964. Exception: some employers covered by bona fide collective bargaining agreements terminating after June 11, 1964 which were in effect on May 11, 1963.

The new Act forbids employers to discriminate in the payment of wages on the basis of sex. This calls for "a fair day's pay for the fairer sex"; actually, the law also prohibits paying women *more* than men for comparable work. The law does not affect wage systems based on seniority, merit, or productivity. It does extend to any employees covered by the basic Fair Labor Standards Act and follows that Act's specific exceptions.

Violations call for back pay awards, liquidated damages, and stiff penalties.

The Equal Pay Act establishes certain record-keeping requirements but does not prescribe particular forms for records. Practitioners may want to advise their clients on what records will be appropriate for their particular information systems.

Practitioners and their clients can find a concise explanation of the Act's provisions in the booklet, "Information on the Equal Pay Act of 1963," available from the U.S. Department of Labor.

More firms make use of professional testing

Accounting and business firms are making greater use of the Institute's professional testing program — tests which enable them to check the qualifications of applicants for accounting positions. They used the record number of 12,626 professional testing exams in 1962-63, an increase of 37 per cent over last year.

The *examiner certification program,* which enables firms and businesses themselves to give and score tests on the spot, helped account for the increased use of professional testing. Sixty-three firms of all sizes received examiner certifications last year, bringing the total holding them to 502.

Firms interested either in the basic professional program or in examiner certification can get full information from: Project Office, AICPA Committee on Personnel Testing, 21 Audubon Avenue, New York, N. Y. 10032.

LETTERS

Cleopatra and the CPA

I noticed in *The CPA* (Dec.63, p.4) a reference to the new recruiting film being planned by the Institute. I was amazed to read that "it should be completed in about two years." Another reference in the same article indicates that the previous film "CPA" was two years in production.

I am not familiar with motion picture production, but this seems like an unusually long period to produce a short subject, when epics such as "Cleopatra" do not take any longer. If you can obtain any clarifying information for me, I would be indebted to you.

BERNARD H. LEVY
New Orleans, La.

Members may be interested in this summary of the Institute's reply.

There are many reasons why a film on CPAs takes longer than one on Cleopatra.

Basically, the Institute doesn't have any of a studio's investment in property, equipment, or personnel; hence, we can be slow and thoughtful in a manner that we think improves the product and also saves money.

After the one staff man working (part-time) on this project develops a firm treatment, his work will be reviewed — thoughtfully, rather than speedily, because thought at this stage improves the product with no appreciable difference in cost. We have no Liz Taylor — or even any bit players — waiting around on the lot running up salary charges. In choosing a professional film producer, and in working with him to turn the treatment into a script, we can be more concerned with excellence than speed — and still not incur any large expenses related to time.

When we are ready to "shoot," probably sometime next year, we will go very fast indeed and will make the commercial producers look like pikers. (We don't have to wait while the stars exhibit their temperament.) We "shot" "CPA" in two weeks. At this point we incur almost all of our production costs, and it therefore behooves us to be as expeditious as we can. At this point we would go much slower if we had "Cleopatra's" $41 million — that is, we would shoot scenes again and again until we got exactly what we wanted and otherwise damn the expenses. But with some $50,000 we do as competent a job as we can within the limitations of time imposed by the amount allocated for the film.

Actually, the Institute's experience is not unlike that of other associations that sponsor films. Two years in making such films is typical.

Do Institute people do enough?

I found "What Do All Those People Do?" (*The CPA*, Nov.63, p.8) very interesting but not very informative. As one member of the Institute who does not think that "membership in the Institute is a bargain" or that you have repealed Parkinson's Law, I am writing as you suggested and giving you a chance to prove it.

CHARLES G. WALKER
Baton Rouge, La.

[ED. NOTE: *We proved it — we hope. For proof of our good intentions, see Mr. Carey's column on page 6. For another member's response, see below.*]

To me it seems impossible for only 182 people to do all the things that are done by the Institute and to do them so well. We are so used to near perfection in all the releases and in the services rendered by the Institute staff that I'm afraid we tend to take them for granted. In reaching these conclusions I am not unaware of the wonderful work performed by the 53 committees.

As one grows older in the profession and reaches the point where he has neither the time nor the energy to attend all the many instructive national, regional and local meetings, the excellence of the Institute's broad coverage makes it possible for him to still keep abreast of most of the matters affecting the profession.

As Shakespeare said, "I can no other answer make but thanks, And thanks, and ever thanks" — to the officers, directors, committeemen and staff who accomplish so much for all of us.

O. M. CORDLE
Golden, Colo.

AICPA creates post of managing director

The creation of a new post of "managing director" of the Institute was approved by the executive committee at its last meeting.

John Lawler, who has served as deputy executive director of the Institute since 1962, has been named to fill the new position by Executive Director John L. Carey.

Mr. Carey will retain over-all responsibility for the staff operations, but will delegate primary responsibility for the day-to-day activities of the staff to the managing director. This realignment of duties is designed to permit Mr. Carey to devote more time to long-range planning, to work with senior committees on major policy issues, and to communications with key people both within and outside of the profession.

Mr. Lawler has been a member of the staff since 1949. Before becoming deputy executive director, he served as assistant director of public relations, director of state society relations, editor of *The Journal*, and director of professional relations.

A forward look at professional ethics: committee considers emerging problems

What should the practitioner do about: management services? the independence rule? APB pronouncements?

A wide-ranging meeting of the committee on professional ethics and six of its subcommittees has produced action on many professional problems.

The two-day December meeting grappled with ethical questions involved in management services, independence, competitive bidding, directory listings, and APB pronouncements. It also approved four proposed amendments to the Code of Professional Ethics, considered procedural changes and took action in seven disciplinary cases.

The ethics committee approved for publication Opinion No. 14, on the applicability of the Code of Professional Ethics to *management advisory services* (see this page). The committee also approved for future publication an amendment to Opinion No. 11 regarding *directory listings.*

The committee plans to publish a formal opinion interpreting the rule prohibiting *competitive bidding.* As a first step, it will distribute a questionnaire designed to elicit committee members' views on the basic principles to be incorporated in the opinion.

On the subject of *independence,* the committee considered (1) the propriety of issuing a disclaimer when the auditor is considered lacking in independence, (2) the propriety of a member's owning stock, solely as an incident to membership, in a nonprofit social club which he audits, and (3) the independence of an accounting firm when one of its retired partners has a financial interest in, or is an officer or director of, a client company.

The meeting also discussed the ethical implications of pronouncements of the Accounting Principles Board and problems of coordination between the Institute and the state societies in the area of professional ethics.

The committee approved for submission to the executive committee four proposed amendments to the Code of Professional Ethics that would (1) define the extent to which an auditor may rely on the work of other accountants, (2) require the expression of an adverse opinion where appropriate, (3) define "laity," and (4) clarify the provisions covering the use of firm names (see *The CPA,* Dec.63, p.5).

A policy was adopted that proposed changes in the Code of Professional Ethics, when presented to the Council or to the annual meeting, will be accompanied by a statement of dissent if a member of the committee so requests.

The committee also decided to expose to the state societies the draft of a proposed new rule stating, in effect, that a member's failure to respond within thirty days to a communication from the committee on professional ethics would constitute grounds for disciplinary action.

Prima-facie cases of violations of the Institute's By-Laws or Code of Professional Ethics were established against seven Institute members. These will be referred to the executive committee with the recommendation that the members involved be summoned to appear before the Trial Board or a subboard thereof.

Opinion No. 14 "Application of Code of Professional Ethics to Management Advisory Services"

Inquiries have been received as to the applicability of the Code of Professional Ethics to management advisory services. It is the opinion of the committee that all the provisions of the Code of Professional Ethics apply to management advisory services, except those rules solely applicable to the expression of an opinion on financial statements.

ADP Course Schedule

The Professional Development ADP course, offering the CPA a working knowledge of the field of automatic data processing, will be presented this spring and summer in Chicago, Pittsburgh, Washington, D.C., Denver, Detroit, and Houston.

Guidance on reports for insurance companies

Practitioners involved in audits of insurance companies will find much helpful information in the "Accounting and Auditing Problems" column of the January 1964 *Journal of Accountancy.*

Although discussions are continuing between representatives of the Institute and the insurance industry to reach solutions on the unusual problems involved, an *interim solution* for the preparation of 1963 audit reports is presented. The column contains an illustrative audit report which would appear to be suitable for reports on either life or casualty insurance companies.

Q/A ETHICS

Q. *A member asks if his name or the name of his firm may be mentioned in the new recruiting ad recommended by the Institute* (see Dec.63 *CPA*, p.5).

A. No. The transmittal letter, which is sent to each member requesting a copy of the ad, reads in part as follows: "In recommending this model advertisement to editors of school publications, members should make it clear that the profession's ethical restrictions prohibit the mention of CPAs' names or the names of their firms in connection with any publication of the ad."

Q. *A member asks if his firm may serve as independent auditors of a savings and loan association in which a partner of his firm is a depositor.*

A. Deposits of a firm or of a partner or employee of a firm in a savings and loan association do not constitute a direct financial interest in the association. As an indirect financial interest, however, such deposits must not be material in relation to the total assets of the association or to the net worth of the partner or his firm. The committee recommended that the firm refrain from exercising any voting rights which may be granted to depositors.

Q. *A member asks what responsibility he has for the information included in advertising material used to promote an adult education tax course which he has been asked to conduct.*

A. He has the same responsibility that the author of an article has for the publisher's promotional efforts (see Opinion No. 4 of the ethics committee). It is of value to prospective students to know the instructor's background – degrees he holds, professional society affiliations, and the name of his firm. However, the member has the responsibility to ascertain that all promotional efforts keep within the bounds of professional dignity and do not make claims concerning the instructor that are not factual or that may violate good taste.

The subcommittee on inquiries cannot render formal opinions for the entire committee on professional ethics. However, the above summaries of the questions and of the subcommittee's answers may serve as useful guides to members who face similar problems.

CPA

THE CERTIFIED PUBLIC ACCOUNTANT

Membership bulletin of
The American Institute of
Certified Public Accountants, Inc.
666 FIFTH AVE., NEW YORK 19, N. Y.

Second class postage paid at New York, N. Y.

THE FEBRUARY 1964

CPA

Federal practice bill reaches crucial point

The House Judiciary Committee has been deciding the fate of legislation that the Institute opposes as undesirable for both the taxpaying public and the profession. The Institute has offered testimony developing the full implications of this bill. See page 2 for the background.

New magazine is a publishing phenomenon

Subscriptions for *Management Services* totaled 13,118 as of January 10, 1964, with about two-thirds of the total coming from Institute members; advance estimates had anticipated only 6,000 to 7,000 subscriptions at this point.

When the first issue of the bimonthly publication appears on March 15, 1964, it will present a fresh face to subscribers. While a number of commercial magazines cover portions of the field, none of them presently spans the full range of advisory services performed by CPAs. *Management Services* will use illustrations and color liberally to make the magazine visually stimulating and its concepts quickly understandable. Among the subjects covered in the first issue: mathematical models in decision making, the psychology of consulting, and dynamic breakeven charts.

News in the field of Federal audits . . .

Two developments emphasize the Government's growing activity in using independent auditors. As analyzed in *The Journal* (Feb.64, p.12), this trend presents both opportunities and challenges for practitioners.

. . . for HHFA

The House Public Works Committee has suggested what would probably add half a billion dollars to the Housing and Home Finance Agency's accelerated public works program requiring "cost certifications." The increase would entail at least a thousand more engagements for local auditors in "depressed areas." The Institute has contacted the regional officials responsible for implementing the HHFA program and has given them materials about CPAs, such as the firm directory of AICPA members and the Code of Professional Ethics.

. . . and for REA

The Rural Electrification Administration has issued its revised bulletin on audits of REA borrowers' accounting records. The bulletin provides for uniform treatment of electric and telephone borrowers' audits and introduces a number of substantial changes in audit procedures. These changes will be analyzed in the Accounting and Auditing Problems column in the March *Journal*.

The CPA, February 1964. Published monthly, except July-August when bimonthly, for membership of the AICPA, Inc. Vol. 44, No. 2. Publication and editorial office: 666 Fifth Ave., New York, N. Y. 10019. Second-class postage paid at New York, N. Y.

Institute opposes legislation to weaken Treasury's regulatory powers. Here's why.

As this issue goes to press, the Institute is preparing for an important Congressional appearance.

The Institute was invited to testify on the "automatic admission of attorneys" bill, S 1466. It was scheduled to appear on January 30 before Subcommittee No. 3 of the House Judiciary Committee — the latest stop in the bill's express-train passage through Congress.

This story gives members the essence of what will go into that testimony.

The Institute opposes the bill because it believes (1) that S 1466 is not appropriate as it relates to the Treasury Department and (2) that it contains features of great concern to CPAs.

This legislation, introduced on recommendation of the American Bar Association, would permit automatic admission of attorneys to practice before all Federal administrative agencies, including the Treasury Department. The bill, S 1466 (HR 6160 is similar in the House), is analyzed in the box on this page.

Despite vigorous objection by the Treasury, the Institute, and other interested parties, S 1466 was reported favorably by the Senate Judiciary Committee on December 5, 1963 and promptly passed by a voice vote of the Senate on the following day.

The Institute is concerned because many members regularly engage in practice before Federal administrative agencies, particularly before the Internal Revenue Service of the Treasury Department. Since the Treasury Department is one of the few agencies of the Federal Government which has an established enrollment procedure, S 1466 is directly aimed at Treasury practice.

The bill's supporters contend that it is a hardship for an attorney to be required to meet the qualifying conditions of each Federal administrative agency before which he practices — that, in fact, the requirements are unnecessary because the attorney, once admitted to the Bar of the highest court of his state, has demonstrated sufficient good character and competence to qualify him to practice before any Federal administrative agency. It should be recognized that the Treasury Department, the principal target of the legislation, already accepts membership in the Bar as a demonstration of sufficient competence; however, it does make its own investigation of an applicant's character and reputation. The Treasury investigation includes a review of personal tax returns for years not closed by the Statute of Limitations, and inquiry with local Internal Revenue Service officials about the applicant. Attorneys will avoid this examination of character and reputation and the relatively nominal filing fee if the bill is enacted.

The Institute believes that Section 1(a) of the bill, dealing with the automatic admission of lawyers is not appropriate in connection with practice before the Treasury Department. The need for supervision, through the enrollment authority, of those admitted to practice before the Treasury Department was recognized by the House Ways and Means Committee in 1953 when it noted that "the importance of the Secretary's using the [enrollment] authority to insure the high caliber of the Treasury bar is self-evident." The Institute subscribes to the views of the Ways and Means Committee and believes that the Treasury Department should be excluded from the proposed legislation.

The business of the Treasury Department has a significant impact on the total economic life of the average taxpayer and most of this business is handled through informal conferences (rather than

What the Fine Print Says in S 1466

The bill print of S 1466 contains only 46 lines; however, its brevity does not suggest its possible consequences. The bill contains these major provisions:

Section 1(a) provides that "any person who is a member in good standing of the Bar of the highest court of any state, possession, territory, commonwealth or the District of Columbia . . ." may practice before any Federal administrative agency without further qualifications.

Section 1(b) provides that "when such a person acting in a representative capacity appears in person or signs a paper in practice before an agency, his personal appearance or signature shall constitute a representation to the agency . . ." that he has qualified under the Act. This would eliminate the power of attorney procedure for lawyers.

Section 1(c) states that the Act should not be construed either (1) "to grant or to deny to any person who is not a lawyer the right to appear for or represent others before any agency or in any agency proceeding," or (2) "to authorize or limit the discipline, including disbarment, of persons who appear in a representative capacity before any agency."

Section 2 provides that when an attorney has qualified, "any notice or other written communication" shall be given to and by such attorney.

Section 3 defines agency.

litigation) between IRS personnel and taxpayers and their representatives. Because this procedure is unlike the procedure in court cases or in cases before other Government agencies, the Institute believes the Treasury's enrollment procedure should not be modified.

In connection with the other provisions of the bill, the Institute believes that:

1. The provision requiring that all communications be given to and by an attorney once he has qualified under the Act would deprive the taxpayer of the right to select the adviser who, in his view, would best represent him.
2. The power of each agency to admit nonlawyers must be expressly reaffirmed in order to prevent the unintentional elimination of this power.
3. The preservation of the existing right of an agency to discipline and disbar lawyers as well as others should be stated affirmatively so that the elimination of the power of admission does not also eliminate the power to discipline and disbar.
4. The elimination of the Treasury Department's power of attorney procedure for lawyers is not in the public interest since it could lead to unauthorized disclosure of confidential information concerning a taxpayer's affairs.

The Institute feels that these are the most urgent points about the automatic admission bill. But S 1466 contains other disturbing possibilities as discussed below.

Service of notice. Section 2 of the bill provides that, even where both an attorney and a CPA are representing a taxpayer in a matter before the Internal Revenue Service, it is the lawyer who may give communications to or receive them from the Service. This provision could be an obstacle to continued co-operation between the legal and accounting professions because it would appear to require that complete control of matters before the Treasury Department be given to the attorney even though both the attorney and the CPA are working on the matter. It would appear that the question of service of notice should be left to each agency.

Practice of nonlawyers before agencies. While Section 1 (c) of the bill contains language noting that it is not intended to restrict the right of nonlawyers to practice before the Government agencies, a more positive statement is needed to avoid the possibility that the power of agencies to admit nonlawyers to practice is not unintentionally repealed or modified by the bill. Clarity in this area is particularly important because, in the recent *Sperry* case, the Supreme Court of the United States held that the right of nonlawyers to serve clients, notwithstanding local contentions of unauthorized practice, derives from the statutory authority granted agencies to admit nonlawyers to practice (JofA, July 63, p.11).

Authority to discipline and disbar. While Section 1(c) provides that nothing in the bill either authorizes or limits "the discipline, including disbarment, of persons who appear in a representative capacity before any agency," a serious question arises concerning the basis on which an agency may discipline or disbar a lawyer. It would appear that unless the bill is clarified, the fact that it precludes an agency, for example, the Treasury Department, from imposing admission standards for lawyers may also unintentionally preclude an agency from disciplining and disbarring them.

Power of attorney. To enable an enrolled CPA or attorney to represent a client before the Treasury Department and to obtain information from the Treasury Department regarding the client's affairs, current practice requires that a power of attorney signed by the client must be filed with the Treasury Department. This procedure permits the taxpayer to specify and limit the subject matter which may be discussed by the client's representative with the Treasury Department and it protects Treasury Department employees against unauthorized disclosure of confidential information concerning the taxpayer's affairs. In addition, the elimination of the power of attorney requirement would create confusion as to which representative of a taxpayer (where there is more than one) has responsibility for and authority with respect to a specific tax matter. It would appear to be in the best interests of the taxpayer, his representatives, and the Treasury Department to maintain the power of attorney requirement.

Taking stock of CPAs' growth: Big by any measure

The "fastest growing" profession is still growing — and fast!

Although completely accurate figures are not available, it is estimated that there are now more than 80,000 CPAs in the United States — an increase of about 15,000 in five years, and of about 25,000 in ten years, reflecting a steady growth in the number of CPA candidates.

Institute membership during the last four years has grown by 13,661 to a total of 48,303, according to a tabulation prepared by the staff as of December 31, 1963. In addition, there are 189 international associates. Over 55,000 CPAs belonged to state societies as of August 31, 1963, showing a gain comparable to the Institute's for the four-year period.

Independence in management services: How can you clarify it for laymen?

Any practitioner who has ever considered a management services engagement has satisfied his professional conscience on this question – "Could management advisory work in any way compromise my independence as an auditor?"

Unfortunately, however, even financially sophisticated people who aren't CPAs often find this point confusing. The following excerpted letter gives practitioners in management services (1) a reminder of how widespread this confusion can get and (2) a model which may suggest how they can handle similar questions on independence in management services work. Written by Herman C. Heiser, chairman of the committee on management services by CPAs, it was published in *Financial Executive*, January 1964.

The Financial Executives Institute's research study, "Effective Use of Business Consultants," should be a useful publication for those who engage the services of management advisers. The study does, however, contain a passage relating to services by CPAs that may be misunderstood. That passage states, without discussion or reason, that "there might be a question of conflict of interest if the management services division of a certified public accounting firm accepts an engagement in a firm in which it is the company auditor. Most public accounting firms are aware of this possibility and try to avoid assignments that might interfere with their responsibility as auditors."

Similar observations have been made by others when commenting on the substantial development of management services practice within the accounting profession. Such comments arise from a failure to understand the essential nature of the independent auditor's function and his role as a business consultant.

This type of professional assistance has been rendered for decades and provided the original basis of practice of many public accounting firms upon their founding. The more recent emphasis on management services within the accounting profession simply recognizes a continuing obligation to meet the needs of the business community.

The question of management services, as well as other factors, is constantly under review. In fact, the committee on professional ethics of the American Institute of CPAs recently examined this matter in all particulars and issued a formal opinion reaffirming the propriety of management services when provided on a professional level.

For those interested in a more complete discussion of this question, see "Are Consulting and Auditing Compatible?" by Kenneth S. Axelson in *The Journal of Accountancy* (Apr.63, p.54).

The growth in the use of business consulting services by industry evidences a need for such services and an awareness of the contribution that the truly professional consultant can make. We in the accounting profession believe that we have demonstrated our competence in many areas of consulting and offer such services under the standards and disciplines of a fully developed professional organization.

It would be a disservice to the business community if a misunderstanding were allowed to develop that served to limit a valuable source of assistance.

Mathias F. Correa and Perry Mason

Mathias F. Correa and Perry Mason, men of long and distinguished service to the profession, have died recently.

The executive committee has passed a special resolution in memory of Mr. Correa, who, as a member of Cahill, Gordon, Reindel & Ohl, New York, acted as special counsel to the Institute for nearly twenty years. Expressing profound sorrow, the resolution notes that "Mr. Correa performed an invaluable service to the country and the accounting profession in defending the legitimate rights of certified public accountants to assist others in discharging their tax obligations."

Perry Mason, both a CPA and a Ph.D., contributed to the profession in a remarkable number of roles. An educator, he taught accounting for 17 years at the University of California in Berkeley and was president of the American Accounting Association in 1950. A longtime Institute member, he served on the Editorial Advisory Board, the committee on auditing procedure, and as chairman of the committee on terminology. An Institute staff member, he was associate director of research from 1954, helped establish the Accounting Research Division, and became associate director in 1959. An author, he wrote many books and numerous articles for *The Journal* and other accounting publications.

Dr. Mason was honored for his "distinguished service in the field of accounting" by the presentation of the Alpha Kappa Psi Accounting Award for 1960. At its fall meeting Council passed a special resolution noting Dr. Mason's retirement, citing his many achievements, and expressing its "deep gratitude" to him.

What have you been doing for the last 15 years? Common Body Study wants to know

How does your practice today compare with what it was like fifteen years ago or so?

Many firms are being asked to take this double look at themselves and then report what they see to the Study of the Common Body of Knowledge for CPAs. A representative sample of firms with members in the Institute has been asked to respond to a Common Body questionnaire seeking this information. However, all members will be interested in the content of the questionnaire for (1) what it suggests about the directions in which the study is moving and (2) the stimulus it provides for taking a fresh look at their own practices, past and present – and for thinking about the future. Firms which do not receive a questionnaire can request one from the Institute.

The questionnaire breaks new ground in the information it is seeking – the study's research staff has already combed through material developed by other surveys.

The section on "Services Rendered to Clients" may suggest fresh opportunities or methods to a firm considering the questionnaire. The part on management services indicates how wide a range of engagements a firm performs. It asks about some 54 different types of service a firm might do, running all the way from "Accounting machine studies" to "Work simplification," with such diverse activities as "Business acquisitions," "Labor grievances," and "PERT" in between.

Under "Special Reports" the questionnaire inquires about some 9 engagements such as SEC registrations, labor-organization financial reports, and reports to credit bureaus. In "Tax Problems" it covers 27 general categories and 10 special industries.

Under "Auditing" it asks such thought-provoking questions as:

"What has been the direction of change with respect to the percentage of the total time devoted to review of the client's system, evaluation of the effectiveness of internal control, etc.?"

"Do you utilize punch card and/or electronic data processing equipment in performing certain audit steps, e.g., verifying footings, extensions and other computations; selecting transactions or items to be vouched or confirmed?"

The section on "Professional Staff" probes for the shifts taking place in educational preparation for the profession, in the use of outside consultants, and in the composition of staffs – how many partners, managers, juniors, etc.?

The section on "Staff Training" asks what educational approach firms use to continue the professional development of their personnel. The question on subject matter offers firms a handy check list of the areas in which they may want further staff training: accounting principles, basic systems, report writing, professional ethics, etc.

The Common Body study director, Dean Robert H. Roy, believes that the answers to this questionnaire will provide a valuable resource for the profession. He urges the firms selected in the sample, who may remain anonymous if they wish, to respond as completely as they can. In the meantime, all firms may benefit from considering these questions and from anticipating how their practice will compare with the profile of the profession which this study produces.

Committee surveys auditing's frontiers

The shape of auditing opinions to come is suggested by the new items on the agenda adopted recently by the committee on auditing procedure.

These items may not reach fruition as formal Statements on Auditing Procedure for two or three years – or ever. But the additions, listed below, to the agenda offer CPAs an advance look at the auditing problems which will receive the committee's serious study, discussion, and draftsmanship:

1. Study of what constitutes sufficient competent evidential matter as it pertains to long-term investments.
2. An over-all study of the four standards of reporting with a view to determining whether or not they are in need of revision.
3. A study of whether it may be possible in the current year to omit some significant audit steps when the reporting on a client is on a continuous basis.
4. The audit procedures that can be taken in determining if a conflict of interest exists on management's part and what steps should be taken when such a conflict of interest is discovered.
5. The alternative auditing procedures which may be employed in the event of nonconfirmation of receivables.
6. Providing members with information on the problems involved in preparing "comfort letters" to underwriters.
7. Study and preparation of an outline on the general review procedures an auditor should take with his client where his name is to be associated with a report that is to be published subsequent to the issuance of his original report.

ROBERT N. SEMPIER
Manager, Auditing Procedure
Technical Services Division

How Much Money Do You Make?

PROFESSIONAL men are properly expected to place service ahead of financial gain, but this doesn't mean that the economic side of a professional practice can be ignored. If it is, the quality of the service is likely to suffer. If the practice of accounting could not yield enough income to maintain a standard of living comparable to that of the community as a whole, the profession could not continue to attract young people of sufficient ability to give the service the community needs.

Fortunately, it has been amply demonstrated that CPAs in practice can earn as much money as most of their clients can, and at least as much as other professional practitioners earn. But there seem to be a large number of CPAs who haven't found this out as yet.

The second annual survey of revenue and expenses of accounting firms (the Institute's Management of an Accounting Practice Bulletin No. 14b) shows remarkably wide variations in gross and net incomes and hourly rates among CPA firms of the same size in the same geographical area. For example, in the New England region the net income of small firms with three partners ranged from a low of $25,000 to a high of $126,000, before partners' salaries and drawings. The median was $48,000. This means that there were just as many above $48,000 as below it.

Some individual practitioners are earning less than larger firms are paying as starting salaries to beginning juniors who hold M.B.A. degrees. Other individual practitioners earn as much as partners of larger firms.

Hourly billing rates for juniors range from under $5 to $15, while in some firms the hourly rate for partners is from $5 to $7.50.

The extremes are so wide among firms of the same size that they are difficult to explain except by assuming that many CPAs are undervaluing their own services. This is bad for them, bad for the profession as a whole, and bad for the clients as well. Inadequate hourly rates usually produce an overworked, harassed practitioner who has no time for self-improvement or good client relations. His low standard of living adversely affects the public relations of the profession as a whole and its efforts to attract superior young people to its ranks. But, worst of all, his clients are not getting the service they deserve, since he hasn't the time or energy to keep himself up-to-date or give constructive thought to his clients' problems.

Scores of CPAs who have taken the Institute's Professional Development courses on Accountants' Fees, Building a Practice, How to Manage, and Client and Public Relations have reported that they have raised fees with little or no client resistance and, as a result, are giving clients more effective service for their money.

Preoccupation with money is not an admirable characteristic, especially in a profession. In fact, it can be self-defeating. But at the same time it must be recognized that a flow of dollars is the bloodstream of any economic activity. In an accounting practice, as elsewhere, too few red corpuscles can result in anemia.

Pension plan looking good to members—and to IRS

Enthusiastic response — from a selected sampling of Institute members — shows that the retirement program is well under way.

Subscribers have already deposited in excess of $400,000 for retirement income plans for themselves and their employees. The Internal Revenue Service indicates that these contributions made for the fiscal year 1963 by employers subscribing to the Institute Plans will be deductible so long as these Retirement Plans are ultimately approved. Master approval of the program by IRS is expected momentarily.

Minor changes requested by IRS leave intact the broad concepts of the program developed by the retirement committee. These concepts embrace:

A balanced investment program of guaranteed deposits with the life insurance company, and investment in marketable securities by the Trustee (the latter to be available for contributions for partners or proprietors only when securities law questions have been resolved).

Coverage for all full-time employees and partners or proprietors who have three or more years of service — partners and proprietors may exclude themselves but all three-year employees must be included.

Choice of a contribution level for each employer plan, ranging from 3 per cent to 10 per cent of the participants' earnings from personal service (defined as earnings reportable for income tax purposes).

Later this year each member of the Institute will receive an invitation to participate, if eligible, in the retirement program, and thus enjoy the advantages in 1964 of the tax deductions and important exemptions permitted by the Keogh law.

Subboards act on cases involving inadequate disclosure, moral turpitude

A member convicted of filing fraudulent tax returns has been expelled from the Institute by a subboard of the Trial Board.

Two other cases involving violation of reporting standards led to a six-month suspension of one member and an admonition to another.

In a case first heard on April 24, 1963, one member was found by the subboard to have been convicted of a crime involving moral turpitude, in that he had been convicted by a Federal court of the offenses of willfully and knowingly attempting to evade and defeat a large part of the income tax due and owing by him and his wife to the United States for two calendar years by filing false and fraudulent joint income tax returns. The subboard also found that the State Board which had issued his CPA certificate had suspended it for a period of two years. The member offered to resign from the Institute. However, the subboard decided not to accept his resignation and decided that he be expelled from membership in the Institute.

Subsequently, the member requested a review by the Trial Board of this decision of the subboard. His request for a review was considered and denied on September 27, 1963, by an *ad hoc* committee of the Trial Board appointed pursuant to the By-Laws. Accordingly, his expulsion became effective Sept. 27, 1963.

In the following two cases, the members did not request review of the subcommittee's decision which accordingly became effective upon the expiration of thirty days after Sept. 27, 1963.

In the first case heard on September 27, 1963, the subboard found the member involved guilty of issuing an unqualified report on the financial statements of a company. He failed to disclose the fact that the statements presented fixed assets at a figure which involved a material appreciation, which fact was known to him and was not disclosed in the said financial statements, but disclosure of which was necessary to make the statements not misleading. It appeared that the revaluation was brought about by a series of transactions with the corporation's sole stockholder and with another corporation, newly organized at the time of such transactions, which had the same sole stockholder.

The subboard found the member guilty of violating Rule 5(a) and 5(e) of the Institute's Rules of Professional Conduct, presently entitled Article 2.02(a) and 2.02(e) of the Code of Professional Ethics, and decided that he be suspended from Institute membership for six months.

In the second case heard on September 27, the subboard considered charges arising from the member's issuing an unqualified opinion on a balance sheet of an individual client which presented investments at values materially in excess of their original cost to such client. The member stated that the reporting without qualification or disclosure had resulted from a combination of his own uncertainty as to the proper presentation and haste resulting from pressure by the client to complete and submit the statements and report. The subboard found the member guilty of violating Rule 5(a), 5(d) and 5(e) of the Institute's Rules of Professional Conduct, presently entitled Article 2.02(a), 2.02(d) and 2.02(e) of the Code of Professional Ethics. It decided that the member be admonished and that the letter of admonition recommend that the member devote himself diligently to improving his understanding of auditing and reporting standards.

New course offers answers on developing personnel from prospects to partners

"What's our firm's biggest problem? Good people – getting, training, and developing them."

This typifies what local practitioners have been saying at professional development workshops and clinics. Impressed by the frequency and seriousness of this complaint, the Institute's PD staff is preparing a new course: "How to Increase Staff Efficiency."

The course, slated for presentation this spring, will follow the steps in effective development from recruitment to partnership. It will provide practical pointers in the successive phases of a good man's development: (1) recruiting the promising college prospect; (2) hiring him; (3) giving him initial training; (4) teaching him to become an effective supervisor; (5) providing continuing assistance in his development; (6) periodically appraising his performance; (7) grooming him for partnership responsibilities.

The new course will follow the format of the "How to Manage" workshop and the "Improving Client Relations" clinic — short lectures, demonstrations, skill practice sessions. Hugh Gyllenhaal, who worked with the PD staff in developing those programs, has been helping prepare the new course. Mr. Gyllenhaal, a specialist in organization development and management training, has also formulated training programs for such corporations as Xerox, AT&T, and Union Carbide.

The next issue of *The CPA* will contain an insert with an attached registration form, listing most of the clinics, conferences, and workshops scheduled for the spring and summer of 1964.

Trial Board chairman explains why member was admonished

The Institute has received a number of letters from members indicating uncertainty as to the basis for a decision of a subboard of the Trial Board, as reported in the July-August 1963 issue of *The CPA*. The report stated that a "member was found guilty of acts discreditable to the profession, in that he caused to be prepared balance sheets of a client as of three different dates, all of which bore notations that they were prepared from books of accounts, although he knew that there were material assets presented in such balance sheets which did not appear in the client's books of accounts." The subboard decided that the member should be admonished.

From the comments received, it appears that members have interpreted the report to mean that the member was admonished because he included in the balance sheets assets which did not appear in the client's books of accounts. While the report was literally correct, it may have been subject to misinterpretation.

The statements included material assets which had been estimated in round amounts by management and conveyed verbally to the accountant but had not been entered on the books. The amount added to the opening book net worth in one year was less than that added to the closing net worth of the preceding year, and increased interim additions caused the statement income to exceed the book income. In short, without adequate explanation or disclosure, the member had permitted his name to be associated with statements which he should have known were misleading.

The subboard did not rule on the practice, which appears to be quite common, of preparing financial statements that give effect to properly supportable adjustments which may not appear on the client's accounting records. The subboard did decide, however, that, under the particular circumstances, the member had committed an act discreditable to the profession when he noted on the financial statements that they were prepared from the books of accounts when in fact they were not.

Louis H. Penney, *Chairman*
Trial Board

Demand for the Institute's recruiting ad for school papers (described in "The CPA," Dec.63, p.5) has been heavy. An updated version—"What Will You Be Doing in 1984?" —is now available. The ad is subject to ethical considerations explained in "The CPA" (Jan.64, p.12).

CPA FEBRUARY 1964

THE CERTIFIED PUBLIC ACCOUNTANT
Membership bulletin of
The American Institute of
Certified Public Accountants, Inc.
666 FIFTH AVE., NEW YORK 19, N. Y.

Second class postage paid at New York, N. Y.

THE MARCH 1964

CPA

Council will consider these key questions . . .

When Council meets this May, it must decide some of the hardest issues the profession has ever faced. Now is the time for Institute members to make up their minds what Council should do on these issues – and to make their positions known to the Councilmen who will act for the profession. This edition of *The CPA* seeks to provide the facts members need to know for these decisions.

... What authority do APB pronouncements have?

The executive committee has developed a proposal to clarify the force and effect of Accounting Principles Board pronouncements. It portends fundamental changes for practitioners, for the profession's governing codes, and for the whole financial community. For an analysis of how the proposal would apply in various auditing situations, see page 2.

. . . What should be Institute policy on Accounting legislation?

Should those who render bookkeeping and related services be licensed? The Council will be asked to act on a proposed program developed after nearly five years of conferences between committees representing the AICPA and the National Society of Public Accountants. See page 10 for the story on this crossroads situation.

. . . What changes should be made in professional ethics?

Council will take up three changes in the Code of Professional Ethics proposed by the ethics committee. They would (1) establish the degree to which a member could rely on other accountants' work in expressing an opinion, (2) require expression of an *adverse* opinion when appropriate, and (3) specify the meaning of "laity" in the rule regarding commissions, brokerages, etc. The full texts appear on page 11.

Is Council the right size for the job?

While considering these basic questions, Council will also ask itself one – are we getting too big to function most effectively as representatives of the profession? It's the same kind of "growth situation" problem which the U.S. Congress had to solve many years ago, when the number of representatives was tied partly to population increase. The Institute's membership "population" has been "exploding" upward with the growth of the profession – and with it, the number of Council representatives has shot up too. Council will consider a reapportionment policy which would keep it at an efficient size while the profession continues to grow.

The CPA, March 1964. Published monthly, except July-August when bimonthly, for membership of the AICPA, Inc. Vol. 44, No. 3. Publication and editorial office: 666 Fifth Ave., New York, N.Y. 10019. Second-class postage paid at New York, N.Y.

Proposal would spell out APB authority —this is what it would mean for members

The executive committee has approved a momentous proposal for increasing the authority of pronouncements issued by the Accounting Principles Board.

The proposal – described in detail in a special report to be sent to Council this month – was approved by an eight-to-three vote at the executive committee meeting on February 6-7. The issue will be debated at the Council's spring meeting on May 4-7.

The proposal would require modification of four basic documents: the Charter of the APB; the Code of Professional Ethics; the First Standard of Reporting in Generally Accepted Auditing Standards; and the By-Laws. Texts of the proposed changes will be available later.

Effect of the Proposal

The proposal would cover only future statements of the APB (referred to as "pronouncements") and these pronouncements would be subject to Council's authority as described below.

The essence of the proposal is this: that when a pronouncement of the Accounting Principles Board has become effective (as provided in the proposed amendment to the Board's Charter), that pronouncement shall be considered as constituting the only "generally accepted accounting principle" in the subject area covered for purposes of expressing an opinion on financial statements.

How do APB pronouncements take effect?

In the absence of Council action a pronouncement would become "effective" after an eighteen-month period following its date of issue by the APB.

However, during this eighteen-month period Council could (1) extend the effective date, or (2) fix an earlier effective date, or (3) send the pronouncement back to the Board for further consideration, or (4) rescind the pronouncement.

The provision that Council have power to rescind an opinion of the Accounting Principles Board was adopted in the belief that there should be some procedure for an appeal from decisions of the Accounting Principles Board to a larger body more fully representative of the membership.

Do the auditor's and management's responsibilities differ?

Management would not be required, under this proposal, to accept the Board's pronouncements, nor would the auditor be required to follow them. However, the auditor would be required to direct attention to departures from effective pronouncements of the Board as not in accordance with generally accepted accounting principles.

What if a member doesn't observe an APB pronouncement?

The effect of adoption of this proposal would be that a member of the Institute, in expressing an opinion on financial statements in which a material item was dealt with in a manner different from that recommended in an effective pronouncement of the Accounting Principles Board, would be required in his report to "direct attention" to the fact that this item was not presented in accordance with generally accepted accounting principles.

If the client's accounting treatment did not have other substantial authoritative support, the auditor would qualify his opinion, as under present practice.

If there were other substantial authoritative support for the accounting treatment, however, and if the auditor approved such treatment, the auditor would be free to state these facts and give an unqualified opinion on the fairness of presentation, provided that he stated in his report that the item in question was not presented in accordance with generally accepted accounting principles.

What if other authority requires departure from a pronouncement?

A member could express an opinion that financial statements prepared in accordance with provisions of a statute, government regulation, or contract, were presented in accordance with generally accepted accounting principles if, in his own judgment or on the advice of legal counsel or other competent authority, the statements conformed with "generally accepted accounting principles" within the meaning of that term as used in the applicable statute, regulation, or contract: however, if this involved a departure from an effective pronouncement of the Accounting Principles Board, the auditor would be required to disclose such departure in his report and explain the meaning of "generally accepted" in the context of the particular case.

Can a member take exception when an APB pronouncement is followed?

The mere fact that financial statements conformed in all pertinent respects with effective pronouncements of the Board would not require a member to give an unqualified opinion that the statements were fairly presented if, in his professional judgment, the circumstances were such that conformity with Board pronouncements resulted in a misleading presentation. In other words, he could take an exception to the fairness of presentation, even though the statements were presented in conformity with generally accepted accounting principles.

How should a member regard an APB pronouncement before its effective date?

In the interval between issuance of a pronouncement by the APB and its effective date, a pronouncement would have the same status as present APB opinions — i.e., during the interim adoption would be optional and disclosure of departures would not be required.

The Accounting Principles Board would reissue each of its pronouncements as it became effective, in a form emphasizing the fact that members were henceforth required to direct attention to departures from such pronouncement.

How would members treat principles not covered by the APB?

Accounting research bulletins of the former committee on accounting procedure and opinions of the Accounting Principles Board, issued prior to adoption of the new proposal by vote of the membership, will not become "effective pronouncements" of the Board *unless reissued by the Board subsequent* to the effective date of the proposed amendments to Rule 2.02 (e) of the Code of Professional Ethics, and then only subject to the procedures described above.

In dealing with items in financial statements on which the Accounting Principles Board had not yet made any recommendation, members would continue, as in the past, to rely on substantial authoritative support as evidence that such items were or were not presented in accordance with generally accepted accounting principles.

Will the proposal affect the accounting research program?

While the proposal would not directly affect the present accounting research program, the current project to inventory existing "generally accepted accounting principles" could guide the APB in deciding which existing principles should be accorded the new status by being reissued under the procedures set forth in the proposal. If the existing opinions or bulletins are not reissued, they will retain their present status.

What Happens Next?

By the time this issue of "The CPA" reaches members, Council members probably will have received a "white paper" explaining the proposal, with background information and a statement of arguments for and against the proposal.

Starting with an editorial in the March "Journal," the Institute magazines will carry as much news and as many views as possible to enable the profession to evaluate the proposal.

Council will discuss the proposal at its spring meeting (May 4-7 in Boca Raton, Florida). If Council approves the proposal, it will go through the normal process for By-Law changes. Full texts of the several amendments required will be distributed well in advance of the annual meeting in October, when the matter will come up for discussion by members.

The essence of this annual meeting discussion, pro and con, will be summarized in booklet form and mailed to all members for mail ballot along with the official texts of the proposed amendments.

The results of this vote should be known by March 1965. If the proposals are approved, they will take effect when the voting is concluded.

First statement in tax responsibility series ready for exposure

When do I have a responsibility to sign a client's Federal income tax return?

Questions such as this, concerning a CPA's responsibility to sign a return prepared for his client, are considered in the exposure draft of Statement No. 1 in the forthcoming series of Statements on Responsibilities in Tax Practice. This series, as described in the September 1963 issue of *The CPA* (p.5), will present authoritative guidance on many of the perplexing questions confronting a certified public accountant in tax practice.

The nature of the tax practice program and certain aspects of the exposure draft of Statement No. 1 will be discussed in an article by Matthew F. Blake, chairman of the subcommittee on responsibilities in tax practice in the April 1964 issue of *The Journal of Accountancy.*

Chairman Thomas J. Graves has announced that the executive group of the committee on Federal taxation has approved the exposure draft of Statement No. 1 for distribution later this month. They will request comments from members of the Institute's executive committee, chairman of the committee on professional ethics, and members of state society committees on Federal taxation.

Any Institute member may obtain a copy by writing to AICPA, 666 Fifth Ave., N.Y., N.Y., 10019.

FROM THE
EXECUTIVE DIRECTOR
JOHN L. CAREY

How to Attract Young People

THE good young men are hard to find. Countless CPAs in large and small firms have said that their greatest problem is getting enough qualified people to do the work that needs to be done.

The work to be done by CPAs will become increasingly difficult and complex; more than ever, it will require people with superior intellectual capacity, broad educational background, and intensive technical training.

But that's true also for corporations, the sciences, other professions, universities, and the government. They too are eagerly seeking young men and women with these high qualities in intellect, education, and training. The competition for the best young brains in the country is getting increasingly keen.

In this competition the accounting profession's recruiting efforts have been somewhat scattered and somewhat sporadic. It's time to take a new look.

The profession has generally assumed that it should aim at three points – high schools, and both the undergraduate and the graduate schools of business administration. At each of these types of schools, the appeal has been direct: "Consider accounting as a career." But perhaps this direct appeal misses the point.

At their preparatory levels, most of the promising young people haven't even decided they want a career related to business, let alone specifically in accounting.

At the high school level, most of the material about accounting has been seen by the commercial course pupils, who don't intend to go to college. Few outstanding high school students who are preparing for college are attracted to accounting as a career at age sixteen or seventeen – partly because their teachers and guidance counselors don't know how accounting functions in modern society nor what opportunities it offers for able young people.

But if a high school student enrolls in a university school of business administration he will learn these things. And if he goes to a liberal arts or science college, and then is influenced to enter a graduate school of business, he will there acquire an appreciation of accounting.

This may suggest that the profession should first attract promising students to the business schools, then inform them of the special opportunities in accounting. Some CPA firms are now recruiting liberal arts and science graduates, then providing for their specific training in accounting at a business school.

So a two-level pattern seems to be shaping up for effective professional recruiting. At students' *preparatory* level, stress business management as a career, while giving some information about the part that the accounting function plays in management. Once students have enrolled in a university school of business administration, concentrate on direct recruiting for accounting.

Our previous efforts with young people may have erred in trying to isolate accounting, in not showing how it fits into the management of economic enterprises. But if we emphasize the social contribution of management, explain the important part accounting plays in management, we may appeal more to a student's interest for now – and perhaps for a lifetime.

The Institute is restudying the entire recruiting program in this light – and hoping to make specific recommendations on it soon.

AICPA reaffirms earlier policy: No CPA Firm, Inc.

The executive committee at its February meeting decided that no comment should be submitted to the IRS on the proposed regulations relating to "professional service organizations" and held that the regulations do not require alteration in the Institute's position on incorporation of professional accounting practices.

The April 1962 and February 1963 issues of *The CPA* carried the Institute's reasons for opposing any change in the Code to permit CPA firms to incorporate. These were: the possible adverse effects on the professional stature of CPAs if their practices were conducted in the corporate form; the practical problems of administering firms which operate in more than one state because of the diversities in the state incorporation laws; and the likelihood that the tax advantages claimed for the corporate form might prove illusory if the IRS claimed that the professional corporations or associations were not bona fide corporations for Federal income tax purposes.

A special committee, whose report led to the adoption of the Institute's policy position on incorporation, concluded that it would be "more satisfactory if the tax problems of professional men were resolved by improvements in the recently enacted self-employed retirement law."

Early returns on mail ballot: All Code changes pass; two By-Laws win, two lose

Flash report on the mail referendum for changes in the By-Laws and the Code of Professional Ethics

The returns aren't all in yet as this issue goes to press—but they will be when you read it. The polls close on March 3. This report is based on returns through February 13.

First, turnout. Enough members voted so that it's a valid election: 37.5% or 18,115 had voted by February 13, thereby satisfying the By-Law's "quorum" requirement that at least one-third of the Institute's membership should vote.

Second, what won? All three of the amendments to the Code of Professional Ethics and two of the four By-Law amendments passed by comfortable margins, getting approval from well over the required two-thirds of the members voting.

The following are the successful amendments, with the percentage of yes votes given in parentheses: The Code proposals regarding *forecasts* (92.2%), *referral engagements* (84.9%) and *solicitations* (82.5%); the By-Law proposals governing *procedures for summoning members to trial* (92.8%) and *service of non-practitioner members on Council and certain committees* (84.9%) —all passed easily.

These amendments take effect March 3, 1964. Members can find the full text of these proposals in either the booklet mailed with their ballot forms or in *The CPA*, June 1963.

Third, what lost? Just slightly over half of the members voted for the proposals for *suspension of members who are under criminal charges* (51.3%) and slightly less than half voted for the proposal on *concurrent* (*or "common"*) *membership* (49.3%).

The concurrent membership proposal was developed as a means of enabling the Institute and the state societies to consolidate such frequently overlapping activities as membership promotion and admission, disciplinary proceedings, and provision of such services as membership directories.

The "automatic suspension" proposal was designed to permit the Institute to avoid the embarrassment of carrying on its rolls — often for an extended period — a member who has been charged with a criminal offense.

AICPA, IRS exchange ideas on tax administration

On January 14, 1964, the day following the season's biggest snow storm in the East, members of the executive group of the committee on Federal taxation met with Mortimer M. Caplin, Commissioner of Internal Revenue and other top officials of the Internal Revenue Service. Unlike the stormy weather, the meeting was friendly and productive.

A number of administrative matters of particular interest to CPAs were discussed.

Rulings publication policy. In connection with a discussion regarding the Service's policy for publishing Revenue Rulings, Commissioner Caplin indicated that he recognized that a broad rulings publication policy contributes to the desirable result of settling disputes at the lowest possible level of IRS administration.

Practitioner Attitude Survey. Service representatives complimented the Institute for its cooperation and high response to the questionnaire which was distributed to a sample of the Institute's firms and practitioners to determine attitudes toward the Internal Revenue Service. Results of the survey are being compiled and a report should be available shortly.

Accounting methods. In connection with a discussion of problems regarding inventory and other accounting method changes, Commissioner Caplin noted that the Service was preparing to issue a Revenue Procedure which he felt would assist taxpayers and the IRS in solving many of the problems in the accounting methods area.

The proposed release was issued recently as Revenue Procedure 64-16 and sets forth an administrative procedure under which a taxpayer may be permitted to change his "accounting practice" for Federal tax purposes with respect to items of income or expense. The Service noted that the new procedure is distinguished from an application for a change of "method of accounting."

Office of International Operations. After discussing a number of the tax committee's recommendations for change in policy and procedure with respect to the activities of the Office of International Operations, Commissioner Caplin agreed to review the matter. One of the committee's recommendations is that taxpayers and their representatives should have the right to confer with members of the OIO staff in the national office at any stage in the administrative settlement process.

Administrative Settlement Procedures. Institute representatives expressed keen interest in the possible improvement in the Service's administrative settlement procedures. Commissioner Caplin noted that studies were in progress on the subject and invited the committee to submit its views.

Council to debate issue of nonlicensed practitioners at its May meeting

What should be the Institute's legislative policy in regard to nonlicensed persons who offer bookkeeping and related services to the public?

That issue will be debated by the Council at its May meeting in Florida.

The debate will be prompted by a "white paper" reviewing the efforts by committees of the Institute and the National Society of Public Accountants to develop a long-range legislative program which would be acceptable to both organizations.

A joint report on the program formulated by the two committees appeared in the March 1963 issue of *The CPA.*

The "white paper," approved by the executive committee at its February meeting for submission to Council, ends with a unanimous recommendation by the executive committee.

The Council will be asked to adopt a resolution which, in essence, would place the Institute's governing body on record as not being opposed to the basic principles in the joint report of the AICPA-NSPA committees taken as a whole *provided that two conditions are met*:

(1) That the title to be granted to persons licensed to render bookkeeping and other related services is clearly descriptive — for example, "public bookkeeper"; and

(2) That certain other details in the program can be worked out to the satisfaction of the state organizations.

The historical sections of the "white paper" trace the five years of negotiations between the AICPA-NSPA committees.

That effort began in 1959 shortly after the Council adopted a resolution declaring it to be an objective of the Institute to develop and maintain friendly relations with those who were entitled (under regulatory accounting laws) or permitted (under permissive statutes) to call themselves "public accountants."

It was clear at the first meeting of the two committees that no co-operative program could be effective unless some agreement could be reached on the conflicting legislative policies which sharply separated the two organizations.

The NSPA was committed (and is still committed, pending mutual acceptance of any alternative legislative program) to create a continuing class of "public accountants" authorized to perform a full range of services. The Institute was (and remains) unalterably opposed to these efforts.

The two committees began to seek some areas of agreement on the legislative problem. Encouraged by the governing bodies of both organizations, they held more than a dozen meetings.

The final result: a recommended pattern of legislation which, in the view of the two committees, would ultimately "achieve clear identification and effective regulation of all those who render accounting services at all levels to the public."

Under the proposed legislative pattern, the accounting services offered to the public would be divided into two categories: (1) the expression of opinions on financial representations resulting from an audit; and (2) all other accounting services. The long-range objective of the program would be that only CPAs would be authorized to perform services in both categories, and that another continuing group, to be licensed under a title clearly distinct from certified public accountant or public accountant would be authorized to perform services only in the second category.

At its spring meeting in 1962, the Council adopted a resolution (by a 121-34 vote) declaring that it was "inclined to look with favor" upon the recommended program if a mutually satisfactory title could be found for those who would be authorized to per-

S 1466: How It Stands

The profession participated effectively in recent Congressional consideration of the Federal practice bill—S 1466. An Institute delegation led by President Heimbucher presented testimony, along the lines described in the February "CPA," at House Judiciary subcommittee hearings on January 30. Comments from Congressmen on the subcommittee demonstrated that their CPA constituents had done a good briefing mission on the profession's viewpoint.

These member constituents were well prepared to present CPAs' arguments for opposing or modifying the legislation, thanks partly to memorandums which had been expeditiously prepared by the Institute and rapidly distributed by the various state societies.

An account of the hearings and subsequent Institute recommendations on the S 1466 bill appears in the March "Journal."

As "The CPA" goes to press, no decision has been made on S 1466. But, whatever the outcome, the profession has made an impressive presentation to a Congressional group which deals with much of the legislation affecting CPAs' rights to practice before Federal agencies.

form limited services. The NSPA's governing body took similar action.

Last spring the proposed program was resubmitted to the Council – this time with a title for the so-called technician class which had been agreed upon by the two committees. The title was: "Accounting Practitioner."

After extensive debate, the Council voted to ask the state societies for their views on the program – and to inform the societies that the Council itself was not disposed to regard it with favor.

Some twenty-one state societies responded to the Council's request, each of them expressing some degree of opposition to the program. The replies suggest that many societies feel:

- That the title of "accounting practitioner" would be too similar to certified public accountant or public accountant, and would misleadingly imply professional stature and competence.
- That the work performed by the group to be licensed is not sufficiently endowed with public interest to require state licensing and regulation.
- That any legal recognition accorded to the group would encourage it to seek additional and unwarranted privileges.

Two other factors emerge from the state societies' answers: Most of them believe that there should be a national legislative policy; and most of them suspect that the nonlicensed group is growing in their state – though they lack precise information on its present size or rate of growth.

Since the Council's action last May, the NSPA's governing body has approved the proposed program contingent upon its acceptance by the Institute.

The white paper which Council will consider recommends that the state organizations *of both the AICPA and the NSPA* discuss the proposed joint report in light of the resolution prepared by the executive committee.

Ethics committee proposes Code changes

The committee on professional ethics will propose three changes in the Code of Professional Ethics to Council of the AICPA when it meets in Boca Raton, Florida, May 4-7. Members may want to study the changes in the rules and the committee's comments for discussion with their Council members.

Rule 2.01

COMMENT:

In the opinion of the committee, Rule 2.01 as it now reads does not restrict the right of a member to express an opinion, regardless of the extent to which work is performed by other accountants. In fact, the present rule might be interpreted as permitting a member to express an opinion as the result of an examination, no part of which was conducted by him or his firm. The proposed new rule would incorporate in the Code those provisions of Statement on Auditing Procedure No. 32 which relate to reliance on work performed by other independent accountants.

PROPOSED NEW RULE:

"A member or associate shall not express his opinion on financial statements unless they have been examined by him, or by a member or employee of his firm, on a basis consistent with the requirements of Rule 2.02.

"In obtaining sufficient information to warrant expression of an opinion he may rely, in part, to the extent appropriate in the circumstances, on reports or other evidence of auditing work performed by another certified public accountant, or firm of public accountants at least one of whom is a certified public accountant, who is authorized to practice in a state or territory of the United States or the District of Columbia, and whose independence and professional reputation he has ascertained to his satisfaction.

"A member or associate may also rely, in part, to the extent appropriate in the circumstances, on the work of public accountants in other countries, but the member or associate so relying must satisfy himself that the person or firm is qualified and independent, that such work is performed in accordance with generally accepted auditing standards, as prevailing in the United States, and that financial statements are prepared in accordance with generally accepted accounting principles, as prevailing in the United States, or are accompanied by the information necessary to bring the statements into accord with such principles."

PRESENT RULE:

"A member or associate shall not sign a report purporting to express his opinion as the result of examination of financial statements unless they have been examined by him, a member or an employee of his firm, a member or associate of the Institute, a member of a similar association in a foreign country, or a certified public accountant of a state or territory of the United States or the District of Columbia."

Rule 2.03

COMMENT:

The proposed change, regarding adverse opinions, is in accordance with the recommendations of the Institute's committee on auditing procedure, as published in Statement on Auditing Procedure No. 32.

PROPOSED NEW RULE:

"A member or associate shall not permit his name to be associated with statements purporting to show financial position or results of operations in such a manner as to imply that he is acting as an independent public accountant unless he shall:

(a) express an unqualified opinion; or

(b) express a qualified opinion; or

(c) express an adverse opinion; or

(d) disclaim an opinion on the statements taken as a whole and indicate clearly his reasons therefor; or

(e) when unaudited financial statements are presented on his stationery without his comments, disclose prominently on each page of the financial statements that they were not audited."

PRESENT RULE:

"A member or associate shall not permit his name to be associated with statements purporting to show financial position or results of operations in such a manner as to imply that he is acting as an independent public accountant unless he shall:

(a) express an unqualified opinion; or

(b) express a qualified opinion; or

(c) disclaim an opinion on the statements taken as a whole and indicate clearly his reasons therefor; or

(d) when unaudited financial statements are presented on his stationery without his comments, disclose prominently on each page of the financial statements that they were not audited."

Rule 3.04

COMMENT:

This change would substitute for the word "laity" the definition of this term now appearing in ethics committee Opinion No. 6. If the change is approved, the committee plans to issue a revision of Opinion No. 6.

PROPOSED NEW RULE:

"Commissions, brokerage, or other participation in the fees or profits of professional work shall not be allowed or paid directly or indirectly by a member or associate to any individual or firm not regularly engaged or employed in the practice of public accounting as a principal occupation.

"Commissions, brokerage, or other participation in the fees, charges or profits of work recommended or turned over to any individual or firm not regularly engaged or employed in the practice of public accounting as a principal occupation, as incident to services for clients, shall not be accepted directly or indirectly by a member or associate."

PRESENT RULE:

"Commissions, brokerage, or other participation in the fees or profits of professional work shall not be allowed directly or indirectly to the laity by a member or associate.

"Commissions, brokerage, or other participation in the fees, charges or profits of work recommended or turned over to the laity as incident to services for clients shall not be accepted directly or indirectly by a member or associate."

CPA

MARCH 1964

The CPA is the membership bulletin of the American Institute of Certified Public Accountants, Inc.
666 FIFTH AVENUE, NEW YORK, N. Y. 10019

Second class postage paid at New York, N. Y.

THE APRIL 1964

CPA

AMERICAN INSTITUTE OF CPAs

Proposal on APB moves ahead . . .

The executive committee has put the finishing touches on its proposal to clarify the status of APB pronouncements. Substantively, the proposal stands as described in the March *CPA* (p.2) and April *Journal* (p.9).

Since it involves changes in the By-Laws and Code of Professional Ethics, the proposal will be submitted – if approved by Council – to the Florida annual meeting for discussion and then to the membership for a mail ballot.

. . . as a new research director is appointed

In a related development, the executive committee has selected Reed K. Storey, now assistant director of accounting research, to succeed Paul Grady as director when Mr. Grady completes his service this September. Mr. Storey is the author of a study of the development of accounting principles in the United States – a document which will also be sent to Council members to aid them in their consideration of the APB proposal.

APB allows 2 methods for investment credit

The Accounting Principles Board has decided to issue a new Opinion on the investment credit which recognizes the "flow-through" method as an acceptable treatment. However, APB Chairman Alvin R. Jennings said that the "useful life" approach endorsed in Opinion No. 2 is still preferred.

A draft of the new Opinion – endorsed by the required two-thirds of the Board in a telegraphic poll – has been sent to all firms and practitioners represented in the membership. When approved by formal ballot, a copy of the Opinion will be sent to each member, and it will be published in *The Journal*.

Slate of AICPA officers selected for 1964-65

The nominating committee has proposed the following members for service as AICPA officers for 1964-65: For President – Thomas D. Flynn, New York; for Vice Presidents – Horace G. Barden, Illinois, Maurice J. Dahlem, California, Bernard B. Isaacson, Delaware, John R. Ring, Florida; for Treasurer – David F. Linowes, New York. The committee's slate will be voted on at the annual meeting in Miami (October 4-7).

A forward look at the annual meeting

This year's meeting will feature a new look: *in format* with all the business sessions scheduled to be concluded on Monday, and *in content* with a day and a half of professional sessions focused on a unified theme – how to turn the long-range objectives committee's visions of today into the profession's realities for tomorrow. See the story on page 5.

Train your staff "on campus" this summer

An up-to-date staff training program offers junior personnel the latest in EDP, taxes, systems analysis and audit program development. The 1964 summer sessions of this professional development course tailored for training younger staff men will be offered at six campus sites around the country – see page 5 for the particulars.

The CPA, April 1964. Published monthly, except July-August when bimonthly, for membership of the AICPA, Inc. Vol. 44, No. 4. Publication and editorial office: 666 Fifth Ave., New York, N.Y. 10019. Second-class postage paid at New York, N.Y.

Institute redirects its public relations program. Here's what has been done . . .

Several steps have been taken to streamline the Institute's approach to some of the profession's basic public relations needs and to its relations with the state society organizations.

The public relations activity is now centered in the executive office under the direct supervision of the executive director and managing director. Roderic A. Parnell has been selected to develop and administer the program in co-operation with the Institute's new public relations counsel, Osgood Nichols Associates, of New York.

Mr. Parnell joined the staff in 1956 as assistant administrative secretary. He developed the economics of an accounting practice program (now Management of an Accounting Practice), for which he researched and wrote 11 of the first 13 bulletins. In the course of this work he gained familiarity with many phases of practitioners' problems, especially in the public relations area where he produced bulletins on "Bankers' Attitudes Toward the CPA," "Small Business Looks at the CPA," and "Building Sound Relations with Your Client." In his most recent Institute post, he served as manager of state society relations.

A graduate of Yale University with a B.A. in psychology, Mr. Parnell has done extensive graduate work at New York University in business management and marketing. He was a news manager with a national reporting service and later served as personnel manager for a paper company.

Mr. Nichols is a former journalist and has had over twenty years' experience in public relations. In addition to serving major corporations, he is co-author of ***Partners in Production,*** published by the Twentieth Century Fund, and was director of public information for the National War Labor Board. He has previously counseled CPAs, and his present clients include Merck & Co., Federated Department Stores and the American Sugar Company.

The over-all state society relations activities will remain in the professional relations division, under David H. Lanman, Jr., the division director. Every division director will be expected, however, to deal directly with the state organizations in his particular area of activity. This direct liaison is expected to facilitate the exchange of information and assistance.

The new public relations program will concentrate on informing those segments of the public with a direct interest in the activities, standards and policies of the accounting profession. (See John L. Carey's column in *The CPA,* Dec.63, p.11.)

This will pinpoint attention on such groups as:

- high school and college students who might be attracted to the profession
- business schools and their faculties
- Congress and Federal Government agencies
- professional, trade and business organizations and their leaders

A major campaign, involving the participation of members of the Accounting Principles Board, will be undertaken to acquaint business leaders with the profession's continuing efforts to improve financial reporting standards and methods of presentation.

. . . in television

The first step in a new program to work more closely with the television industry was taken on February 20, when Albert H. Cohen, a member of the Institute's committee on Federal taxation, appeared on "The World At Ten" over WNDT-TV (N.Y.). During a twelve-minute interview, Mr. Cohen discussed some of the general economic and personal implications of the new tax law and effectively outlined the committee's over-all position on tax simplification.

Pleased with Mr. Cohen's performance, the producers have indicated that they will seek additional opportunities to present CPAs to their viewers.

The Institute is now exploring a possible series of short programs dealing with money management problems. These could be made available to local stations through the state societies and the National Educational Television Network.

. . . and on Wall Street

An important aspect of the Institute's new public relations program, co-operation with the financial community, was exemplified in a recent action by the New York Stock Exchange.

NYSE President G. Keith Funston recently wrote the presidents of listed companies urging that they include in their annual reports a statement of source and application of funds. He referred to the APB's Opinion on the subject as "most timely and appropriate." Each letter carried a copy of the Opinion, supplied by the Institute.

The resulting press coverage shows how public relations can help carry the profession's viewpoint in the right direction. *The Wall Street Journal* (Feb.24, p.1) and *The New York Herald-Tribune* (Mar.8, editorial page) carried lucid explanations of the difference between AICPA position on funds statements and some misuses of the "cash flow" concept.

Practitioners pick tax seminars, clinics as most popular courses in PD poll

Which professional development courses would interest you the most?

All members were asked this kind of question as part of the latest PD catalog, mailed to them in December 1963. Some 3,069 members (about 6 per cent of the total in the Institute) replied, establishing the following hit parade ranking for PD presentations.

"Estate Planning and the CPA" tops the list, followed by "Problems of the Closely-Held Corporation." Other tax courses proved quite popular in the survey results.

Here are the top ten courses:

	Title	*Number of Members*
1.	Estate Planning and the CPA	1,538
2.	Problems of the Closely-Held Corporation	1,397
3.	Purchase, Sale or Liquidation of a Corporate Business	1,288
4.	Budgeting for Profit in Small Business	1,179
5.	Pension and Profit-Sharing Plans	1,095
6.	Financing the Small Business	1,060
7.	"Cash Flow" Analysis and the Funds Statement	1,022
8.	Procedural Problems in Tax Practice	1,017
9.	Writing Audit Reports	993
10.	Real Estate Problems	977

It is interesting to note that each of these is a seminar — a course developed by the AICPA and presented by the state societies to their members.

The most popular clinics, conferences and workshops (courses presented either by the professional development division or in co-sponsorship with state societies) were (1) the first in the new tax lecture series — "Current Developments in Taxation"; (2) a new course — "Developing a Management Services Practice"; and (3) a current two-day course, — "An Introduction to ADP."

The survey will enable the professional development division and the state societies to notify members who responded when the courses that interest them will be offered.

Institute is preparing a pioneering study on how accounting standards compare around the world

A pioneering study of accounting, auditing and financial reporting practices in twenty-six foreign countries is nearing completion. Prepared under the auspices of the Institute's international relations committee, it is scheduled for publication in 1964.

James J. Mahon, chairman of the committee, announced that this study represents the first known attempt by any organization to compile the available data on foreign accounting, auditing and financial reporting in a convenient form. It should be of far-reaching significance for the business community, the CPAs who serve it and business educators because it will provide a basis for comparing U. S. standards and practices with those abroad.

Gilbert R. Byrne has served as project head. He has been assisted from time to time by foreign specialists from the staffs of a number of international firms represented on the committee. These same firms have provided financial support for the project and opened their files for the raw material on which the research is based.

Mr. Mahon said that the project was prompted by the almost unanimous demand for knowledge concerning international accounting standards at the 1962 International Congress and by the awakening interest of the U. S. business community in the global concept of business operations. A large educational foundation thinks the project may provide the basis for a broader research project in the little known field of international business, accounting and finance.

Guidance for Members Who Have SBIC Clients

CPAs who have Small Business Investment Company clients can find some guidelines to assist them in reaching a conclusion as to what kind of opinions should be expressed on SBIC financial statements for the fiscal year ending March 31, 1964; see Accounting and Auditing Problems, then edited by Carman Blough, in the March 1963 "Journal of Accountancy."

Mr. Blough makes this point: "While there may be cases in which the independent auditor can give a clean opinion, we are inclined to believe that in a large proportion of SBIC audits the independent CPA will have enough reservations as to the fairness of the valuations at which the company is carrying its investments to require a qualified opinion."

Richard C. Lytle's February 1964 column in "The Journal" points out what the SBA requires in the event an independent CPA expresses a qualified opinion or disclaims an opinion.

What a typical Institute member thinks of the annual meeting

While looking forward to the Institute's annual meeting in Miami, I have also been taking a look back over the last one in Minneapolis and trying to determine what these meetings mean to me and my firm.

When I returned to St. Louis from the meeting (October 6-9), the people in my office asked, "What did you bring home?" I had expected this question, and all during the meeting I had tried to reflect on how to answer. It was not an easy task. I don't think anyone brings back any radically new idea or method of operation, or a brainstorm which suddenly develops and which is uniquely capable of transforming his practice.

A promise for the future

Attending this meeting roused me from that lethargy which seems to settle on us all as the year rolls by. Suddenly, at the meeting, we were face to face with the philosophy, the motivating force and the spirit of the accounting profession with all its aspirations, its promises and its future challenges.

It is an infectious experience to participate in a national convention and to have men like the president of General Electric Company, or the Commissioner of Internal Revenue, or a wise president of our own Institute speak to us. It is heartwarming to participate in the presentation of the Elijah Watt Sells medals and to hear brief accounts of the recipients' lives. (One had been a filling station clerk before he became an accountant.)

I became aware of a new dimension when speaker after speaker both praised and criticized our profession. President Clifford V. Heimbucher said, "We have every opportunity to be the profession of this modern age." Gerald L. Phillippe of General Electric warned the profession that unless we can agree on definitions and terms of principles of accounting, some governmental body, e.g., the SEC, might take over the function of telling us what principles of accounting should be.

Thoughts for 1964

In the way of recommendations for this year's meeting, I would like to see a display or a shop for the sale of Institute publications. I doubt very much that the individual practitioner coming to a convention realizes the wide variety of books and reading materials that are available to him at little cost. I also think a geographical directory of visitors to the convention, in addition to the alphabetical one, would be helpful.

I would like to see you reinitiate the publication of a daily newspaper showing photographs taken the previous day and reporting the details of some of the activities. This enhances the visitor's feeling of involvement.

How to relate to those at home

All during this convention I kept asking myself: "Am I able to translate this feeling of exhilaration spawned by this meeting into my every working day? How can I tell my office associates about the pride that I feel in belonging to an organization which can bring together at a meeting of this type so many honored, experienced and successful people – not only CPAs but people from other walks of life? How can I tell them about the ambitious and farsighted programs that are now being planned on a national level for our accounting profession? How can I tell them about the effort which the Institute makes in uplifting the standards of our everyday work; and why is it, even though I read all twelve issues of *The Journal*, that I do not get the same uplift that I had during the two and one-half days in Minneapolis?"

I guess it must be the physical contact and the extreme concentration on a single subject that creates this almost chauvinistic feeling; there is just no way of bringing it back to the people in your office unless you make a daily effort to say something about the challenging philosophy and expectations of our profession.

Peter Hochschild
Hochschild, Bloom & Company
St. Louis

Opinion Revised on Yellow Page Listing

Section 2(b) of Opinion No. 11, which relates to listings in classified telephone directories, has been revised by the American Institute's committee on professional ethics.

The new section reads:

"b. Yellow (or business) section of classified telephone directories.

"Listings are permitted only in the classified directories which cover the area in which a bona fide office is maintained. Determination of what constitutes an 'area' shall be made by the state societies in the light of local conditions."

The previous ruling of the committee permitted members to list in only one classified directory. Since this ruling was found to be impracticable in certain localities, the committee decided to permit additional listings when the local CPA society believes they are warranted.

Members to meet in Miami in October: 1964 conclave will preview next ten years

High government officials and top representatives of industry, education and accounting will preview the profession's prospects over the next decade at this year's annual meeting.

An anticipated 3,000 AICPA members and their wives will gather in Miami next October 4-7 to attend. The Americana Hotel in Bal Harbour (Miami) will serve as headquarters.

The technical program for the 1964 meeting will be built around several aspects of the long-range objectives committee's study, including the future of tax practice, management services and the attest function. Speakers will also try to assess the impact that change will have on the profession in terms of personnel, education, structure and standards.

In addition to a full social program which will take advantage of Miami's natural attractions, postmeeting trips to Nassau, San Juan and the Virgin Islands will be available.

Applications for, or inquiries about the postconvention air and sea cruises should be sent directly to: World Wide Travel Service Corporation, Mercury Building, 1925 K Street, N.W., Washington, D.C. 20006.

Fees for the meeting will be as follows: Full registration for members and guests — $50; full registration for wives — $35; registration for technical sessions only — $10; tickets to individual luncheons — $6 each. Separate registrations which exclude the annual banquet will not be sold this year. An outline of the program and applications for advance registration and hotel reservations will be contained in the June issue of *The CPA*.

Institute Trial Board units act on two cases: Warn one member on discreditable acts, expel another member convicted of tax evasion

Sub-boards of the Institute's Trial Board have admonished one member for two acts discreditable to the profession and expelled another who had been convicted of tax evasion.

In the first case, heard on November 12, 1963, the respondent was found guilty of preparing a balance sheet and supporting schedule in which he represented as his net worth a sum greatly in excess of what he knew his net worth to be, with knowledge that this information was to be presented to a lending institution in connection with a credit loan transaction. He was also found guilty of showing a client a financial statement which indicated falsely that the member had made a substantial investment in a corporation in which the client was interested.

The member admitted both charges. He said, however, that the events had taken place six and seven years before, and that he and his family had been suffering their consequences ever since. He said that he was not personally liable on the loan; that the lending institution had required a financial statement from him only as an afterthought; that he had presented the assets of a certain corporation to be his personal assets because that corporation was not qualified to do business in the state; that the loan had been repaid; and that the financial statement falsely showing his investment in his client's company had been requested by his client for use in property settlement negotiations with the client's ex-wife, but that the statement had never been used for this purpose by anyone concerned.

In the second case, heard on November 22, the sub-board found that the respondent had been convicted by a Federal court of the offense of willfully and knowingly attempting to evade and defeat a large part of the income tax owing by him to the United States for a calendar year by filing a false and fraudulent income tax return. The member had offered to resign from the Institute. However, the sub-board did not accept his resignation and decided instead that he be expelled for having been convicted of a crime involving moral turpitude.

1964 On-Campus Schedule for Professional Development "Staff Training Program"

July 27 - August 7	University of Southern Mississippi, Hattiesburg, Miss.
July 27 - August 7	College of William and Mary, Williamsburg, Va.
August 3-14	University of Colorado, Boulder, Colo.
August 3-14	University of Rhode Island, Kingston, R.I.
August 17-28	Bradley University, Peoria, Ill.
August 23 - September 4	Menlo Park College, Menlo Park, Calif.

Democracy in Action

NEARLY twenty thousand Institute members returned mail ballots on seven proposed changes in the By-Laws and Code of Professional Ethics within a sixty-day period beginning January 3. This in itself is impressive — all the more so since it required a thirty-page booklet to present and explain the amendments.

But even more striking is the fact that two amendments were roundly defeated while five were overwhelmingly approved. This proves that the members voting had read the material, thought about it and reached their own conclusions. If any evidence were needed that Institute members are independent, or that they care about their profession, this is it. No rubber stamps they!

There are significant implications in the defeat of two proposals. One of them would have provided for voluntary agreements between the Institute and the state societies that neither would admit members in the future who did not join the other. It seems clear that the majority does not want integration of the state and national organizations. These members believe in separate and independent local groups. Perhaps they feel that even if this results in some competition for the interest and support of individual CPAs — and thus in less than perfect efficiency and economy — this is no bad thing.

They may well be right. If the state societies in effect guaranteed the Institute its membership, the Institute's incentive to serve its members directly might be weakened. As things stand now, the Institute must continue to give its members value received for their dues dollars if it hopes to keep them. So must the state societies. The benefits to members of both may be increased thereby. All the more it behooves the national and state organizations to avoid spending money simultaneously on projects which one can do better than the other. Duplication of effort or expense may tempt CPAs to choose one or the other organization instead of both.

The defeat of the proposal for suspension, without prejudice, of members charged with criminal offenses reflects the traditional American conviction that a man is innocent until proven guilty. While a bare majority favored this proposal, it failed by a wide margin of the required two-thirds. The result is that members accused of crimes may remain in good standing in the Institute for years, until all legal recourse has been exhausted. But the thousands who voted against the change must feel that this is less harmful to the profession than the possibility that an innocent member might be dropped from the rolls before he has had his day in court.

Regardless of specific issues, it is most encouraging to know that the Institute as an organization has the vitality to make decisions, despite the fact that its membership has grown to nearly fifty thousand, and its internal communications processes consequently become increasingly difficult.

So long as individual members express their views and participate in policy decisions by casting their votes, the future of their professional organizations will remain in good hands — their own.

Members are to suggest changes in Revenue Code

What would you like to see changed in the Federal income tax law?

State society and chapter committees on Federal taxation have been requested to assist the Institute's committee on Federal taxation in the development of recommendations for amendments to the Internal Revenue Code. The committee also would appreciate comments and recommendations made directly by individual Institute members.

Development of recommendations for amendments to the Internal Revenue Code is one of the most challenging activities undertaken by the tax committee.

It is also an activity which produces positive results. A number of the tax committee's earlier recommendations have been adopted. For example, the committee has long advocated a general plan for income averaging to relieve taxpayers with widely fluctuating incomes. The Revenue Act of 1964 includes a provision dealing with income averaging. Another tax committee recommendation in the new act is the proposal for a deduction for employees' moving expenses.

The last booklet of recommendations, containing 105 suggested changes in the Internal Revenue Code, was submitted to the House Ways and Means Committee in February of 1961. Additional recommendations were submitted to the House group during its consideration of the President's 1963 tax message. These recommendations were carefully selected for their relevance to the subjects and goals of the President's message.

The tax committee hopes to receive many suggestions from state societies and others in order to submit the new presentation of recommended changes in the Internal Revenue Code to the House Ways and Means Committee late this year or early next year.

LETTERS

Members debate proposed rule on reliance

I read with considerable dismay the first proposal under consideration by the Institute's committee on professional ethics. This proposal would in effect virtually eliminate the opportunity for a member to issue an opinion on financial statements on the basis of an examination conducted by another member. In my opinion, such a revision in present Rule 2.01 would set public accounting in the U.S. back twenty years in its effort to achieve true professional status.

How in the world can a "profession" expect the lay person to rely on any of its practitioners when it prohibits those practitioners from relying on each other! Are we to so admit that our "profession" is a complete failure in developing standards of professional conduct and insuring adherence thereto? This proposed change in Rule 2.01 negates the whole concept of the development of a professional stature and is entirely offensive to those practicing CPAs who have taken in good faith the virtual flood of articles and official pronouncements concerning the development of uniform standards of practice and who have worked hard to attain and maintain the necessary level of proficiency in the conduct of their practices.

The practical aspects of the proposed change are equally serious and injurious to the profession. Consider the position of a firm which enters upon an initial engagement, following another firm of independent accountants. Must the new firm do over again all the work previously done by its predecessor in order to render an opinion on an income statement, including beginning inventories audited by the former accountants? Further, there are many instances where smaller CPA firms perform substantial auditing services for clients of long standing, who have grown to a size or complexity which has resulted in the retention of a larger firm for published reports, stock issues, etc. Are these clients now to be forced to summarily dismiss the small firm which may have materially contributed to the company's growth?

It seems to me that the real question involved here is one which is basic to the entire concept of public accounting as a profession. In my view, the sum and substance of a profession is the competence and professional responsibility maintained by its practitioners. So long as we continue to develop this individual sense of professional responsibility, so long will our profession grow in numbers and in stature. The proposed change to Rule 2.01 advocates a philosophy which is, in my view, diametrically opposed to true professional development, and I urge the committee to remove this item from its agenda. I further urge all Institute members to communicate their views to the committee so that it may be made aware of them in its deliberations.

William A. Frankel
Atlanta, Ga.

William Frankel objects to the proposed revision of Rule 2.01 on the grounds that it would "virtually eliminate the opportunity for a member to issue an opinion on financial statements on the basis of an examination conducted by another member."

I am sympathetic with Mr. Frankel's viewpoint. I would like to see the time come when reliance can be placed on an examination conducted by any certified public accountant. I would like to feel that every certified public accountant would automatically follow the statements on auditing procedure, the pronouncements on accounting principles, and the provisions of the Code of Professional Ethics; but we haven't reached that point yet. The report to Council of the practice review committee indicates a part of the problem that exists. The inquiries and complaints before the committee on professional ethics indicate another aspect of the problem.

Responsibility for an examination must be placed where it belongs, and that is upon the certified public accountant who rendered the opinion. It is true, of course, that he can modify the assumption of responsibility by following the procedures set forth in the Statement on Auditing Procedure No. 33, particularly Paragraphs 32-36 of Chapter 10, and thereby indicate his reliance on the report of another CPA.

If the other certified public accountant had not issued a report or an opinion but had merely conducted a substantial part of the examination, who is to be held accountable? If, for example, the examination was, in fact, deficient under the standards set forth in Rule 2.02 of the Code of Professional Ethics, the examining accountant could assert that since he rendered no opinion, he is not subject to 2.02. On the other hand, the certified public accountant issuing the opinion would merely state that he was not responsible. He did not make the examination; he merely relied on the examination of another. While this framework might be a convenient one for the profession, it is hardly one to present to the business public. Someone must be given specific responsibility. This the proposed revision of Rule 2.01 attempts to do.

From another viewpoint, is it

good for the profession to permit a CPA to issue an opinion when he is relying entirely on the examination of another and, in effect, is merely acting as a contractor utilizing the work of a subcontractor and doing none of the work himself? Just what is the professional service rendered by the CPA issuing the opinion?

Apart from the need for the proposed revision of Rule 2.01, I believe that Mr. Frankel's fears are groundless. The proposed revision will in no way restrict use of the services and reports of other CPAs but will merely require the accountant rendering the opinion to do a reasonable part of the examination himself and, beyond that, to make at least a minimum inquiry into the independence and professional reputation of any other CPA upon whom he may rely. It is the intent of the proposed revision of Rule 2.01 to prevent abuses, not to restrict normal, desirable practices.

J. P. GOEDERT
Chicago

Wanted: Information from insiders on mergers/acquisitions of practices

CPAs often are asked to advise clients on mergers and acquisitions – but they find it hard to advise themselves when a proposed merger or acquisition involves their own practices.

There just isn't much data readily available on the purchase, sale or merger of practices. Therefore, Richard C. Rea, CPA, has undertaken the development of such data under the auspices of the committee on management of an accounting practice. The results of his research probably will be published as an MAP Bulletin on the subject.

He has already started gathering information by contacting all persons who have recently inserted ads in *The Journal of Accountancy* seeking to sell, purchase or merge their practices. They have been asked if the ads were successful and, when a purchase, sale or merger developed, what the terms, price and conditions of the agreement were. To date the responses have been surprisingly good.

However, the project will need more of these knowledgeable sources than it can discover from the *Journal* ads. Therefore, Mr. Rea and the committee are asking all members who have engaged in the purchase, sale or merger of a practice to inform Mr. Rea about the details of the transaction. All information will be held in the strictest confidence and it will contribute substantially to the development of dependable guidelines for the entire profession.

All letters should be addressed to Richard C. Rea, MAP Committee Consultant, American Institute of CPAs, 666 Fifth Avenue, N.Y., N.Y. 10019.

CPA

APRIL 1964

Second class postage paid at New York, N. Y.

The CPA is the membership bulletin of the American Institute of Certified Public Accountants, Inc.
666 FIFTH AVENUE, NEW YORK, N. Y. 10019

THE MAY 1964

CPA

As Council meets:

At the time this issue reaches most members, the Institute's governing body will be meeting (May 4-7) in Miami to consider several momentous issues.

In addition to its regular business, Council will vote on a proposal to establish the force and effect of pronouncements of the Accounting Principles Board, and a series of recommendations designed to set the maximum size of Council at 250 members. Since these changes involve amendments to the By-Laws, they will be submitted, if approved, to the membership for discussion at the fall annual meeting and then to a mail ballot.

The Council will also conduct a new review of the proposed legislative program developed over the last four years by committees representing the Institute and the National Society of Public Accountants.

The Council's decisions on these major policy issues will be covered in the June *CPA*, which will be published as soon as possible after the meeting.

Members can get the essence of these proposals from stories in the March *CPA* and the news section of the April *Journal.* As Mr. Carey's column on page 8 notes, feelings run strong on some of these issues. But he suggests strong feelings mean a vital profession and he points to some landmark decisions which have come out of past problems.

The APB reviews itself as . . .

Just before the Council meeting, the APB will have met and decided whether to recommend to the Institute's governing body that the Board's Charter be amended to permit nonmembers of the Institute to serve on the APB.

. accounting principles make news

A copy of the APB's recently issued Opinion No. 4 (amending No. 2), on accounting for the investment credit, has been mailed to all members. CPAs whose clients decide that they should now follow a different treatment of the credit may have questions on whether this raises a problem in reporting consistency; the May *Journal* comments on this question in Accounting and Auditing Problems.

And members who want to consider the proposal on the status of APB pronouncements in its historical context will be interested in the book announced on the insert following page 4 of this *CPA.* Entitled "The Search for Accounting Principles," it was written by Reed K. Storey, who will become director of accounting research in September.

Pension plan clears last big hurdle

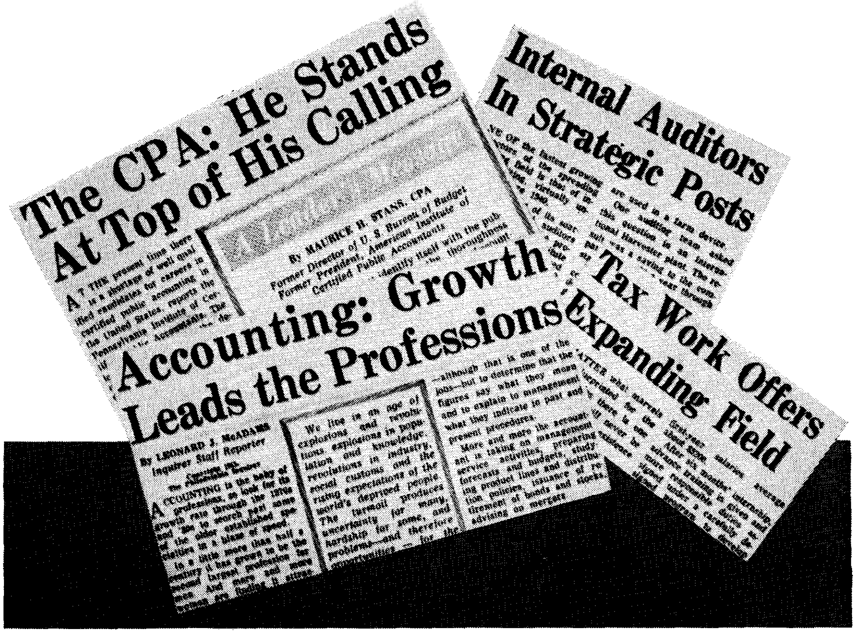
Internal Revenue has approved the AICPA Retirement Program as a "master plan" for eligible individuals and firms adopting both the Members' and Employee's Plans. All eligible members will receive an invitation to join the program later this year.

The CPA, May 1964. Published monthly except July-August when bimonthly, for membership of the AICPA, Inc. Vol. 44, No. 5. Publication and editorial office: 666 Fifth Ave., New York, N. Y. 10019. Second-class postage paid at New York. N. Y.

Read all about it. The profession's prospects make headline reading in reprint designed for effective recruiting efforts

The headlines on the right aren't news to you.

But they may well be news to most students considering a choice of careers. The Accounting Careers Council thinks so, and it is distributing the reprint carrying these headlines to school and college groups.



The reprint is an excellent one-page discussion of career opportunities in accounting: accurate, enthusiastic and quite readable. It appeared first in *The Philadelphia Inquirer* for November 1, 1963, the result of effective press liaison by the Pennsylvania Society of CPAs.

The Accounting Careers Council chose the reprint for its principal document to orient students to accounting. As such, it replaces the now somewhat dated "Young Eyes on Accounting."

Practitioners personally may also find the reprint useful in explaining what accounting is today and what it should develop into tomorrow. The reprint is suitable for use on bulletin boards, in reception rooms – or for giving to a young person trying to choose a career. Practitioners may secure free copies in reasonable quantities by writing the AICPA order department, 666 Fifth Ave., New York, N.Y. 10019.

What does the collapse of Allied Crude Oil mean for accounting? AICPA committee is studying the question. Here is its first statement

"What's the story on this Allied Crude situation? Does it affect accounting?"

As a CPA, you have probably been on the receiving end of this kind of question recently. You may find the following memorandum helpful if the matter comes up in business or social discussions. The memorandum was developed by an Institute *ad hoc* committee appointed to follow developments in the case. The statement has been approved by the chairman of the auditing procedure committee:

"The business community has been shaken by the news of the collapse of several brokerage firms and the further losses which have come to light relating to the activities of Allied Crude Vegetable Oil Refining Corporation. These losses resulted from borrowings or other transactions by Allied based upon warehouse receipts issued against oil purported to be owned by Allied but which cannot now be located. It appears also that some receipts may actually have been forged.

"Apparently it will be some time before all the facts in this situation are known. Consequently any broad conclusions as to auditing procedures would be premature at this time. It is quite natural that many questions are being asked. How could a fraud of such gigantic proportions be perpetrated? What are the usual safeguards against such a happening and where did they break down?

"In this connection, it might be pointed out that in the Allied Crude situation, although some of the creditors and field warehousemen employed independent auditors, the financial statements of Allied Crude itself were never audited.

"The Institute has the matter under active study and consideration, and a statement may be expected at a future date when the facts of the situation have been clarified."

Accounting research project takes on a major problem: Pension accounting

- *Pension plans — and their costs — have mushroomed in 20 years*
- *Problems in accounting for them have increased, too*
- *Just what are the costs? How do you make adjustments?*

A current research project is cutting through the thicket of problems surrounding pension accounting.

Following World War II, pension plans became a major element in union contract negotiations. As a result, the number of people and the sums of money involved grew rapidly. Pronouncements on the related accounting problems were made by the committee on accounting procedure, the most recent being ARB No. 47, "Accounting for Costs of Pension Plans," issued in 1956.

The present research project, under the supervision of Ernest L. Hicks, CPA, of Arthur Young & Company, New York, is exploring the subject more thoroughly than was possible in the past. It considers, in part, the following major issues:

Questions

1. Does the widely used procedure of basing accounting charges for pension costs on payments lead to a fair presentation of financial position and results of operations? If accounting charges are not based on the amounts paid, how should they be determined?

Considerations

Accounting by employers for the costs of pension plans is currently subject to wide variations. The cost of pension plans charged to expense is usually equal to the actual amount paid, whether to a trustee, to an insurance company for the purchase of annuities, or directly to pensioners.

Some employers consider the amount paid *ipso facto* the proper charge to expense. This view is based primarily on legal considerations and on the uncertainties as to the amounts that will eventually be paid to pensioners. Other employers see no necessary relation between the amounts paid in a particular period and the amount of the pension charge appropriate in determining net income. For some companies, arriving at a suitable charge to income is a major consideration in calculating the annual payments. In other companies, however, the amounts paid are based on considerations which may be viewed as unrelated to accounting; for example, the amount of cash available to the employer or the level of the employer's earnings.

Objections to present procedures are based primarily on the wide variations that may result from basing accounting charges on payments. For example, if a pension plan is funded by payments to a trustee, there may be no payment, and hence no charge to operations for a particular year. On the other hand, if a payment is made, the charge to operations may range upward to an amount equal to the current service cost plus 10 per cent of the initial past service cost. Typical in-between variations are (1) current service cost plus interest on the unfunded past service cost, and (2) current service cost plus amortization of past service cost based on a period of, say, twenty or thirty years.

Questions

2. Should the gains and losses, resulting from changes in actuarial assumptions and deviations between actual experience and the assumptions, be recognized immediately — or spread over future periods? If the gains and losses are recognized immediately, should the amounts be included in the calculation of net income?

Considerations

Pension costs are usually estimated by actuarial calculations of the present value of pension benefits to be paid in the future. The calculations which must be made for funding purposes, as well as those for accounting purposes, involve complicated technical factors. A number of significant uncertainties concerning future events must be tentatively resolved by making certain assumptions, such as: the rate of return on fund investments, mortality of employees both before and after retirement, employee turnover and future earnings levels of employees.

Although the assumptions do not affect the ultimate cost of a pension plan, they have an important effect on present estimates of the cost. As information becomes available that modifies previous assumptions and estimates, adjustments must be made to reflect the changes.

The accounting research study, in preparation, considers the proper accounting treatment of these adjustments, and also whether the market values of pension fund assets — especially marketable securities — or only realized gains and losses on investments should be included in pension cost calculations.

Cecilia Tierney, CPA
Accounting Research Division

When you have a question on ethics, ask the Institute for an answer . . .

Do you have a question on professional ethics?

Each year members seeking guidance on ethical matters send in a total of over a thousand inquiries. Here's what the committee on professional ethics does about them.

If a similar question has been considered by the committee previously, the staff will promptly answer the inquiry by citing the precedent ruling. When there is no close precedent, the member's question is referred to the subcommittee on inquiries, a five-man group, appointed to advise members on the interpretation of the Code of Professional Ethics and the ethical implications of proposed actions.

After considering the inquiry, each subcommittee member submits his views to the staff assistant, who forwards the subcommittee's composite opinion to the inquirer. (Summaries of such opinions have been published in recent issues of *The CPA*. See Oct.63, p.5, Dec.63, p.12, Jan.64, p.12 and this issue, p.8.)

In some cases the subcommittee members are not in full agreement or the problem is too complex to be considered by mail. Such questions are placed on the agenda for the next meeting of the subcommittee, and the inquirer is so informed.

When the question results in an interpretation of the Code which would be of general interest to the membership, the subcommittee refers the question to the full sixteen-man ethics committee. This group may then decide that the question warrants the issuance of a formal opinion or, on rare occasions, the consideration of the executive committee or the Council. The inquiring member is kept apprised of the committee's deliberations.

By providing this service to the membership, the ethics committee hopes to achieve uniform interpretation of and compliance with the profession's ethical standards.

. . . or, look it up

This month every member will receive a revised copy of the Institute's By-Laws, objectives, Code of Professional Ethics and official opinions of the ethics committee. Members are urged to familiarize themselves with this authoritative source of information on matters involving Institute policies and procedures, and to keep it on hand for ready reference.

It should be noted, however, that the Code of Professional Ethics and the opinions of the committee cannot cover every situation which a member may encounter involving questions of ethical conduct. The committee invites members to call or write the Institute whenever they are in doubt about interpretation of the Code or the propriety of a particular course of action — as the preceding story suggests.

Legislatures: Few bills but important ones

Not many accountancy bills were introduced in state legislatures this year — but the proposals were quite important.

Bills have been introduced in two states which would prohibit nonlawyers from representing others before state agencies, including the tax commission. *Provisions of this kind, which may restrict the practice of CPAs, can escape notice because they need not relate directly to the accountancy law or to the state tax code.* In West Virginia the provision turned up in a water resources bill and also in a measure relating to rule-making procedures of state agencies; in Kentucky it appeared in a bill which purported to be "an act relating to attorneys and the practice of law."

Attempts are being made in New York and Rhode Island by non-CPAs to obtain CPA certificates by the legislative route rather than by examination. Also, in New York and the Virgin Islands certain groups are trying to re-open enrollment of public accountants.

Bills affecting accountancy were also introduced in Alaska, the District of Columbia, Georgia, Massachusetts, South Dakota and Virginia. In addition, many state CPA societies are moving into high gear in their preparation for the 1965 legislative season when forty-seven state legislatures will meet.

The Institute has been in touch with all state CPA societies concerning legislative activity and, where appropriate, has offered advice and assistance in keeping with Institute policy.

Wanted: Questions for the CPA Examination

The Institute would like to receive your contributions to the stockpile of Uniform CPA Examination questions, especially those relating to situations encountered by practicing CPAs.

Questions should be sent to Director of Education Edward S. Lynn, AICPA, 666 Fifth Avenue, New York, N.Y. 10019.

Profession will preview itself ca. 1975 at 1964 meeting: This is the schedule

Here's the timetable on the annual meeting in Miami:

It's less than six months away, it took six years to prepare, and it will look a decade ahead to preview what's in store for CPAs.

A glance at the schedule below shows this new look in the annual meeting. Monday, the first official day, will be devoted to the business meeting — and if Council approves the resolutions it is considering this May (page 1), members will be debating matters of historical importance.

At the technical sessions on the following days, CPAs will see a preview of their own world of tomorrow. Each of the sessions will make a forecast about a major aspect of the profession in 1975. These sessions will mark the first full-scale presentation of the work of the Institute's long-range objectives committee. At the luncheons on Tuesday and Wednesday distinguished national figures will speak on the broad political and economic outlook for 1975.

The schedule:

Monday, October 5:

Annual business meeting, installation and awards luncheon

Tuesday, October 6:

A.M. General Session:

The new face of America, the new challenge to American business, and the mission of professional men

P.M. Simultaneous Sessions:

The future of tax practice

The future of management services

The future of the attest function

Wednesday, October 7:

The structure of the profession

Education and personnel

The maintenance of standards

Ample time is also allotted for fun and sun. The scheduled social program extends from Sunday, October 4, to Wednesday, October 7. Activities will include an oceanside reception, special tours, entertainment and luncheons for members' wives, and a banquet.

Members who want to take advantage of postconvention air and sea tours of the neighboring islands should make direct application to Worldwide Travel Service Corporation, Mercury Building, 1925 K Street, N.W., Washington, D.C., 20006.

Complete details of the 1964 annual meeting will be published in an upcoming issue of *The CPA* which will include a postcard request form for reservations.

CPAs who believe in long-range planning may wish to make note of the scheduled locations for future meetings: 1965, Dallas, Texas; 1966, Boston, Mass.; 1967, Portland, Oregon; 1968, Washington, D.C.; 1969, Los Angeles, Calif.

Reorganized Trial Board functions smoothly, hears twelve cases in as many months

In the first year since its reorganization the Institute's Trial Board has heard charges against 12 members. Cases now are heard by 5-member sub-boards which may meet at any time and in any part of the country. Previously the 21-member Board would sit in plenary session twice a year, usually when the Council met.

Four of the 12 cases heard in the past year involved tax evasion — either failure to file a return or the filing of a fraudulent return. Four other cases concerned violations of reporting standards. Two cases involved acts discreditable to the profession and two others concerned infringements of the ethical prohibitions against advertising and solicitation.

Actions of the sub-boards resulted in the expulsion of 5 members, the suspension of 4 and the admonition of 3. In one case the sub-board decided that the account of its findings published in *The CPA* should reveal the respondent's name.

The new procedures enable respondents to request a review by the full Trial Board of the findings of a sub-board. Such requests may be granted by an *ad hoc* committee, consisting of Trial Board members who did not participate in the original hearing. Two members have requested such reviews and in each case the *ad hoc* committee denied the request.

Seven of the 12 members involved did not come before the sub-boards to defend themselves and 5 members appeared in their own defense, 3 of them with counsel.

In addition to these, 8 new prima facie cases have been established by the committee on professional ethics, and the executive committee has authorized the summoning of the members involved to appear before the Trial Board. These cases will be heard by sub-boards within the next two months.

The decentralization of the Trial Board appears to work well. Under the new procedures, trials are conducted in places that are readily accessible to the respondents and to the board members. Cases are heard promptly and the respondents are given every opportunity to answer the charges. The number of cases coming to trial is increasing as the membership grows, but only a minute percentage of the Institute's members is involved.

FROM THE
EXECUTIVE DIRECTOR
JOHN L. CAREY

The Problem with Problems

NEVER before have so many felt so strongly on so many professional issues.

The number of proposals to be debated at the current meeting of Council is no cause for alarm. On the contrary, it is a sign of health. The Institute is simply facing up to many important problems—and attempting to solve them.

Some problems exist for a long time before they become visible and demand attention. Other problems may be visible but appear to be insoluble—until intensive study reveals the possibility of solutions. And some new problems arise out of the changing environment.

We have problems of every variety.

When a solution is proposed, it is axiomatic that not everyone will agree with it immediately. In the first place it involves change and people resist change — quite properly — until they are fully satisfied that the new position will be better than the old. Moreover, some proposed solutions are so complex that time is needed for mental digestion.

Problem-solving is further complicated by the difficulty of communication. The same words often mean different things to different people. Some people jump to conclusions without reading the fine print, and oppose suggested solutions for reasons completely unrelated to the real issues. The obstacles to effective communication sometimes seem insuperable in an organization of nearly 50,000 members.

Finally, the proposed solution may not be the right one—or even be a good one. If so, it must go back for improvement.

Or, as Gertrude Stein might have seen the situation, the problem of solving a problem . . . is a problem.

But progress doesn't begin until somebody formulates a proposed solution and exposes it for comment. There is nothing to debate without at least a tentative draft of a proposal. Reducing a proposal to writing reveals the practical difficulties in an idea that sounded just dandy when expressed briefly in general terms.

Normally, the staff or a subcommittee drafts a proposal for solution of a problem under instructions from the committee initiating the idea. Then the full committee operates on it. Legal counsel reviews it if necessary. By the time a proposal is ready for presentation to Council, it has gone through many drafts. This refined draft goes to all members of Council in advance of a meeting and through them reaches state societies and others. All members are informed of its essence through *The CPA*.

Then the debate begins. All concerned argue the issue with their Council members. The Council meeting examines the proposition at whatever length may be necessary. Sometimes decision is deferred. Eventually the proposal is approved — or rejected.

Despite the difficulties, this process has resulted in some landmark decisions:

- 1939: Approval of Extensions of Auditing Procedure, requiring observation of inventories and confirmation of receivables.
- 1949: Approval of Statement on Auditing Procedure No. 23, requiring an auditor either to express an opinion or deny one, and say why.
- 1956: Approval of statement of policy on regulatory legislation.
- 1962: Approval of the rule of ethics on independence.

Many members will remember the arguments that raged over these proposals.

A great many equally complex proposals will have to be considered in the next few years—some of them involving changes in fundamental concepts which have long been accepted, with regard to education, the scope and nature of accounting practice, relationships with government and other groups, organizational policies and programs.

If the debates over such proposals are conducted in the proper spirit, sound solutions will ultimately emerge—as they have in the past. However, if they engender bitterness, the organization could be weakened — or rendered ineffective because no one dared even to raise a question which might create dissension.

The Institute might then sink to the level of organizations which try to make everybody happy by avoiding any disagreeable problem in the hope that it will go away. It might then pursue its routine tasks in peace.

But after a while nobody would be interested in it.

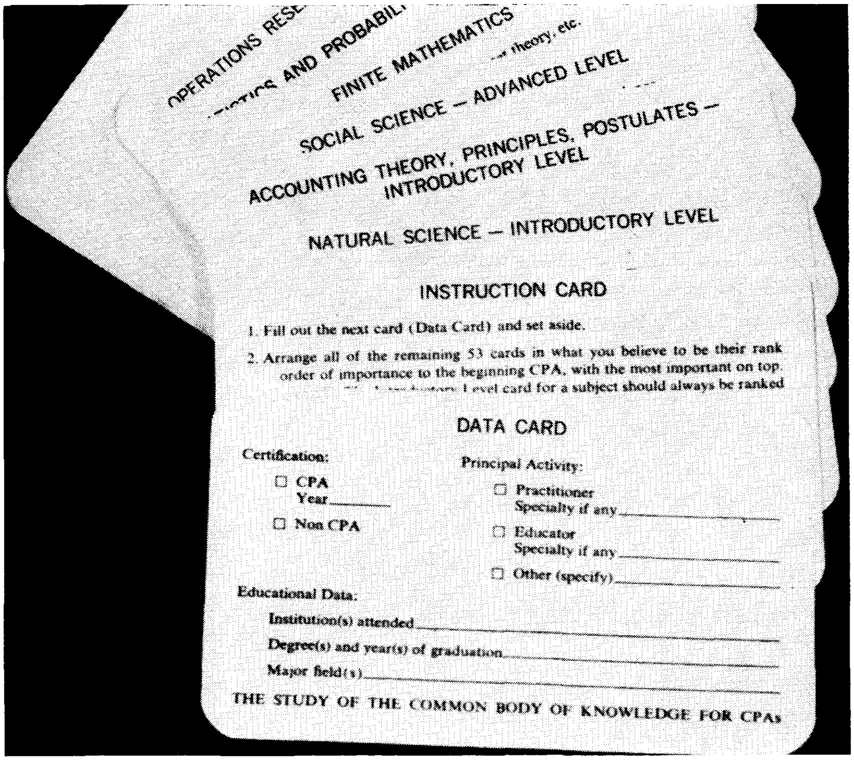
CPA Examination Dates

1964—May 13, 14, 15
November 4, 5, 6

1965—May 12, 13, 14
November 3, 4, 5

What beginning CPAs need to know may be in the cards

Common Body Study uses novel technique to get answers from a distinguished panel



What areas of knowledge are most important for a CPA just starting his career?

A deck of 53 "playing cards" may hold the answers to this question posed by the Study of the Common Body of Knowledge for CPAs.

Each 3-by-5-inch card is printed with a subject which has some significance to the CPA, such as "Business and Industrial Management—Introductory Level," "Algebra," "Auditing Principles, Standards, Ethics," "English Literature," "Corporation Finance—Introductory Level," etc. (see example, this page).

A selected sample of leading CPAs and non-CPAs in accounting, education, business and government have been asked to rank these cards in order—using as their criterion how important they think each subject is to the beginning CPA.

The Common Body staff will then see how these decks stack up according to the professional backgrounds of the participants—who were not required to give their names but were asked to give data on their education and their occupational specialties.

Prior to the mailing of these cards, a questionnaire on public accounting practice in the United States was sent to more than 3,400 firms having Institute members (*The CPA*, Feb.64, p.5). Those who have received this questionnaire and have not returned it are urged to do so as soon as possible so their data can be included in the Study.

Seminar courses for spring and summer get "new look," cover new topics. Tax programs discuss 1964 Revenue Act

CPAs who want to continue their professional education throughout the spring and summer will have an abundance of seminar courses from which to choose.

Eight courses are being revised or updated for presentation in the coming months by state society organizations. These include all the courses in the Generally Accepted Auditing Standards series: "General Standards," "Standards of Field Work," and "Standards of Reporting." New case problems have been added. Existing cases and course material have been updated to reflect the pronouncements contained in Statements on Auditing Procedure No. 33.

The tax seminars scheduled for spring and summer have been supplemented, where necessary, to indicate the effect of the 1964 Revenue Act and to show how changes in rates may affect considerations in tax planning.

Five new seminar courses are slated for completion this spring and summer. The first, scheduled for initial presentation on May 1, is a one-day course entitled "Cash-Flow Analysis and the Funds Statement." The other courses, which are in varying stages of preparation, are: "Improving Profits Through Cost Reduction," "Effective Tax Planning—Problems of Partnerships," "Allocation of Income Taxes," and "Depreciation Problems."

Members may get further information from the Institute's PD Division, AICPA, 666 Fifth Avenue, New York, N.Y. 10019.

ETHICS

Q. *Several members ask if they may pool their funds and establish a separate organization to perform statistical tabulating services for their clients.*

A. The committee thinks that members may properly conduct statistical tabulating service bureaus. However, the committee holds that since such organizations render "services of a type performed by public accountants," under Rule 4.05, they must be conducted in conformity with the Institute's By-Laws and Code of Professional Ethics. Therefore, any such organization in which a member has an interest would not be permitted to do things which other practicing members are prohibited from doing, such as advertising, soliciting business, or practicing in corporate form. (See Opinion No. 7 of the ethics committee.)

Q. *A member asks if stock ownership in a Small Business Investment Company would impair his independence with respect to a client who borrows from the investment company.*

A. Whereas the member's stock ownership represents a *direct* financial interest in the Small Business Investment Company, and renders him *not independent* with respect to that company, his interest in an enterprise which borrows from the SBIC would be considered *indirect*. Therefore, unless the indirect financial interest in the client is material, the member's independence would not be jeopardized.

Q. *A member asks if ownership of one share of stock in a country club, which is a requirement for membership in the club, precludes him from expressing an independent opinion on the club's financial statements.*

A. The committee ruled that a member's ownership of stock in a nonprofit social club, held merely as a requirement for membership in the club, would not impair his independence as auditor.

The subcommittee on inquiries cannot render formal opinions for the entire committee on professional ethics. However, the above summaries of the questions and of the subcommittee's answers may serve as useful guides to members who face similar problems.

CPA

MAY 1964

The CPA is the membership bulletin of the American Institute of Certified Public Accountants, Inc.
666 FIFTH AVENUE, NEW YORK, N. Y. 10019

Second class postage paid at New York, N. Y.

THE JUNE 1964

CPA

Council actions:

As the Council's spring meeting comes to a close, this issue of *The CPA* is being rushed out to give you a flash report on what happened.

Council appraises status of APB Opinions . . .

For nearly ten hours at the Boca Raton, Florida, meeting, Council debated how members should regard APB pronouncements and the relationship between those pronouncements and the phrase "generally accepted accounting principles." The Institute's governing body directed much consideration to the executive committee's proposal (*see March* CPA), with particular emphasis on various methods of implementation.

President Clifford V. Heimbucher ruled that everyone who wished to speak should have the opportunity to be heard on a matter of this importance. Some 43 Institute members, including every former president at the meeting, addressed Council – impressive, compared with the attendance figures below.

. . . then adopts this resolution

This searching examination demonstrated (1) the *complexity* of the matter, (2) the magnitude of its *importance,* (3) considerable diversity of thought on the *implementation* of any proposal but (4) a considerable consensus on the *objectives* to be reached. With these points emerging from the discussion, the following resolution was introduced – and substantially supported by a vote:

> RESOLVED – That it is the sense of this Council that reports of members should disclose material departures from opinions of the Accounting Principles Board, and that the President is hereby authorized to appoint a special committee to recommend to Council appropriate methods of implementing the substance of this resolution.

President appoints committee

Mr. Heimbucher immediately began selecting a small group of distinguished CPAs, who have not served on the APB or recently on the executive committee, to serve as the special committee authorized in the resolution. He further indicated that if this group can achieve substantial progress over the summer, he will call a *two-day* meeting of Council immediately preceding the annual meeting.

Council approves a plan to keep itself at an efficient size

Council proved itself an active representative body – with unlimited and lively debate. Attendance ran high, too. An impressive percentage of members came to the meeting: officers, 100 per cent; members at large, 100 per cent; elected members, 92 per cent; state society presidents or presidents-elect, 91 per cent; former AICPA presidents, 60 per cent.

But enthusiastic turnouts and a steadily growing Institute membership could result in a Council of unwieldy size since it grows partly in relation to increases

The CPA, June 1964. Published monthly, except July-August when bimonthly, for membership of the AICPA, Inc. Vol. 44, No. 6. Publication and editorial office: 666 Fifth Ave., New York, N. Y. 10019. Second-class postage paid at New York, N. Y.

in the number of Institute members. If everyone authorized came to the 1980 meeting, at least 320 voting members would be present.

Council therefore adopted in principle a multipart program designed to: maintain Council at an effective size — at a maximum of around 250; place a ceiling on the number of Council members elected on the basis of AICPA membership in the states at the end of the 1964-65 fiscal year and reapportion that number every five years thereafter beginning with the election of 1971; guarantee each state at least two elected members; increase the number of members at large from 9 to 21; permit former members of Council to serve on the executive committee and grant them *ex officio* Council status during such service. Council will vote on the specific By-Law changes by mail ballot after which the program will be submitted to the full AICPA membership.

Ethics changes submitted to members

Council approved four proposed amendments to the Ethics Code. The changes would (1) establish the degree to which a member could rely on other accountant's work in expressing an opinion, (2) require expression of an adverse opinion when appropriate, (3) specify the meaning of "laity" in the rule regarding commissions, etc., and (4) clarify certain conditions with respect to names of partnerships. The full texts, which will be sent out with summaries of the annual meeting discussion for membership ballot, appear on page 10.

Council reviews legislative policy

The Council also discussed whether or not persons offering bookkeeping and other related services to the public should be licensed as proposed in a "joint report" developed by committees representing the Institute and the National Society of Public Accountants (*see March* CPA).

The debate was prompted by a resolution which would have placed the Institute on record as not being opposed to the licensing of such persons under certain conditions.

Council turned down this resolution. However, in keeping with an earlier policy statement committing the Institute to encourage friendly relations with those entitled to call themselves "public accountants," it authorized continued discussions with the NSPA — with the proviso that no agreements should be reached without further action by Council and prior consultation with the state societies.

Looking around the professional scene . . .

Can CPA-client communications enjoy a privileged legal status? Can efficient machinery be established for management services referrals — while still safeguarding the interests of all parties?

These questions are a sampler of what's inside on pages 3, 4, and 9 — capsule summaries drawn from reports to Council on activities of the Institute's principal committees.

. . . and looking ahead at the annual meeting

The profession meets this year in Miami. As the insert on pages 5-8 suggests, it should be both pleasant and stimulating there in October. The profession's long-range objectives will be highlighted. Informed crystal-gazing on the future for CPAs will be presented in the technical sessions. The insert contains a hotel reservation-request form. Advance registration forms may also be ordered through the insert.

Reports to Council provide a panorama of the profession

The Institute's senior committees made presentations to Council giving the essentials of their activities over the past seven months. Scan through the following pages for capsule accounts on the professional activities which interest you.

Education

The Common Body of Knowledge Commission is using a battery of approaches to discover what every CPA should know when he begins practice:

- A questionnaire designed to contrast the nature of present public accounting practices with those of ten to fifteen years ago
- A deck of "playing cards" to be used to collect opinions as to the subjects which are most important for beginning CPAs
- An intensive review of subject matter offered to accounting students around the country
- Depth interviews with knowledgeable accountants and users of accounting
- Correspondence with promising young CPAs asking such questions as: How has your professional practice made use of your education? How have you continued your education since graduation? To what extent do you participate in the activities of various organizations?

Professors of accounting and Ph.D. candidates who propose promising research topics in accounting will receive grants from the Institute as the result of Council approval of an appropriation of $10,000 based on a recommendation by the committee on relations with universities.

The grants-in-aid should:

- Provide financial assistance for research and writing and for publication of monographs resulting from such research
- Help induce highly competent people to prepare for careers as college professors of accounting
- Benefit the profession by furthering research in depth.

Record totals of candidates and papers for the November 1963 examination were reported by the Board of Examiners.

Work on the preparation of future examinations is satisfactorily advanced.

An optical scanning grading machine was used for the first time in the May 1964 examination to grade the objective questions of the commercial law examination — see story on page 11.

Accounting Principles

The Accounting Principles Board has approved two opinions and given wide exposure to a tentative third one.

Opinion No. 3, "The Statement of Source and Application of Funds," was unanimously approved and received wide distribution and support in the financial community.

Opinion No. 4, an amendment of Opinion No. 2, "Accounting for the 'Investment Credit,'" was also approved. It states that (1) spreading the credit over the lives of the related depreciable assets or (2) inclusion of the credit in income for the year in which the credit arises are acceptable methods of accounting.

The proposed opinion on "Reporting of Leases in the Financial Statements of the Lessee" was given wide exposure among business and financial entities as well as in the accounting profession. It sustains the position previously expressed in Accounting Research Bulletin No. 43, Chapter 14, but requires more extensive disclosure of lease rental requirements and sets forth more specific criteria for identification of installment purchases in the form of leases which should be capitalized.

Among the studies in various stages of preparation by the accounting research division are: accounting for cost of pension plans, reporting of income taxes in corporate financial statements, intercorporate investments and accounting for goodwill.

Management of an Accounting Practice

How can you improve the motivation of staff members? MAP Bulletin No. 20, available the end of this month, applies the latest theories of work motivation to current practice.

Other bulletins scheduled by the committee include: "Internal Communications," "External Communications," "How to Finance an Accounting Practice" and "Recruiting."

In addition, Richard C. Rea, a special consultant to the committee, is researching the subject of buying and selling accounting practices.

Auditing Procedure

Among its activities since the last report to Council, the committee on auditing procedure has:

- Drafted a proposed statement on auditing procedure tentatively entitled, "Competent Evidential Matter — Long-term Investments," to cover reporting problems on audits of bank holding companies, SBICs and similar situations
- Considered, at a joint meeting with the committee on professional ethics, a form of accountant's report to be used when the auditor continues to make examinations when he is considered not independent under Rule 1.01 of the Code of Professional Ethics

• Prepared a revised document dealing with "letters to underwriters" required under SEC registrations

• Prepared a proposed article for publication by *The Journal* (or other financial magazines) which discusses the client's president's letter and other annual report financial data.

Federal Government

The senior committee on relations with the Federal Government considers the following matters to be of major concern:

• *Compliance work* — the committee reaffirmed its position that compliance work should be encouraged as long as the accountant's area of responsibility is clearly defined and his skills equip him for the task.

• *Agency deviations from generally accepted accounting principles* — deviations in this area occur in many agencies and are receiving continuing attention.

• *Organization of committee components* — the senior committee recommended the creation of a consultant position for the Department of Health, Education and Welfare with continuing attention to one of its subagencies, the Office of Education. Other new areas discussed: Federal Aviation Agency, Agency for International Development.

• *Substandard reporting* — such cases were rare in 1963-64 and the committee believes that existing Institute machinery is adequate for the job.

Federal Taxation

In the area of tax administration, the committee on Federal taxation is conducting a comprehensive review of the Revenue Service's administrative settlement process. A survey is in process to determine the experiences of the members of the committee on this subject.

This survey is intended to provide a basis for formal recommendations to the Commissioner.

Seven months after the adoption of the program for issuance of Statements on Responsibilities in Tax Practice, the exposure draft of proposed Statement No. 1 was distributed. A subcommittee is now meeting to consider comments received on the draft and to determine what action should be taken on it. Eight other proposed statements are in various stages of development and an exposure draft on proposed Statement No. 2 is nearing completion.

A new set of recommendations for amendments to the Internal Revenue Code will be submitted to Congress late this year or early next year by the committee on Federal taxation. The last formal presentation to the Senate Finance Committee was on December 5, 1963, when the committee endorsed, with certain modifications, HR 8363 (the Revenue Act of 1964).

State Societies

Growth and change in the profession's organizations call for a re-examination of relations between the state societies and the Institute.

The new approach stresses three major principles:

• The Institute and the societies are independent and autonomous bodies each with an obligation to provide certain services to its own members.

• Co-operation between the Institute and the societies is essential to the growth of the profession.

• The Institute will maintain liaison and will provide such services as requested within the limitations imposed by manpower, time and budget available.

However, the diversity of needs of the state societies suggests that, in seeking to advance these principles, the Institute must be selective. Consequently, in the next few years, AICPA will seek to concentrate its efforts in organizing Institute-state society co-operation on a few vital issues, e.g., the ever-present problem of resisting assaults upon the legislative standards of the profession, and the increasingly urgent problem of improving the profession's machinery for self-discipline.

But a fast-growing profession means fast-changing needs — and the Institute looks to the societies to initiate requests for new services from the profession's national organization.

Management Services

Since its last report to Council, the committee on management services by CPAs has:

• Reviewed the questions of scope and competence, along with other matters of professional conduct and performance, in management services engagements. A subcommittee is presently in the process of drafting a statement on scope and also one on competence.

• Considered a subcommittee report and recommendation on developing an adequate machinery for referrals. However, the problems inherent in balancing fears of encroachment, restraint of trade and client interest have delayed the project.

• Approved for later publication the first of a new series of technical studies in management services, "Cost Analysis for Product Line Decisions."

State Legislation

The committee on state legislation is developing a program to advance the Council-adopted objective of bringing about uniform national standards on:

• Requirements for the issuance of CPA certificates

• Freedom of movement in interstate and international accounting practice

• Codes of ethics and enforcement procedures

(*Continued on page 9*)

(*Continued from page 4*)

The committee on state legislation has devoted much attention to the Institute's role in familiarizing state societies with methods of fostering beneficial legislation.

In addition, the committee has considered these key questions:

1. Should the experience requirement for certification be met exclusively in the public practice of accounting; or should experience obtained in government accounting be recognized also?

The committee recognized that as the educational requirements for certification increased, the exact length and nature of experience became less significant. The final view: The question should be kept under continuing surveillance by the Institute and the various committees concerned.

2. Should a provision be added to the "Form of Regulatory Public Accountancy Bill" which would make communications between CPAs and their clients privileged?

The committee reaffirmed its approval in principle of including such a provision in the bill.

Professional Development

Enrollments in professional development courses for the fiscal year ended August 31, 1963 were 9,315; enrollments for the current fiscal year should easily surpass this mark.

For the calendar year 1963, the PD division set a goal of one-enrollment - for - every - five members. Thanks primarily to the efforts of the twenty-nine state societies which attained or exceeded the one-in-five goal, the national average was 20.6 per cent — 11,534 enrollments compared with 55,894 resident members of the various state societies. Based on these favorable indications of members' interest, the division has raised its goal to one enrollment for every four members.

The state societies must continue to play an important role in this program; only through their whole-hearted support can the program hope to progress.

During the fiscal year 1963-64, the PD division embarked upon its most ambitious program of course development and preparation in its five-year history. Ten new courses were scheduled for preparation and completion. Five of these have been substantially completed and strong progress has been made on the remaining five. When these courses are completed, the PD division will have prepared thirty courses representing fifty-six days of course instruction.

Practice Review

The number of reports examined by the committee on practice review has been enough to "keep it active" but the number of members submitting reports is "not as large as desired."

Since its organization eighteen months ago, the committee has had sixty-six review cases submitted to it for consideration. This limited number of reports suggests that "the surface has barely been scratched" and that "initiation and pursuit of similar activities by all state societies is most desirable."

At the latest count twenty-two out of fifty-three state societies had active programs or were in the process of activating programs.

However, the Institute's committee on practice review suggests that certain of these programs may pose legal liability problems (1) as to accountants' responsibility from the viewpoint of the reporting auditor and (2) as to libel from the standpoint of the society's practice review committee.

The programs in question are of the type "where a practice review committee receives a report from a bank and returns review comments to the bank, the receipt and return being made through an intermediary representative or co-ordinator of the bankers' association. In submitting the report, the bank or the intermediary deletes the name of the company and of the auditors and disguises the report contents to prevent identification. After receiving the practice review committee comments, the bank may or may not discuss them with the reporting auditor. . . . Under this procedure, the reporting auditor is never in communication with the practice review committee to express his views or to give background information on the items in question, and except by chance he will not receive the review comments of the accountants' committee."

Several societies, such as New York and New Jersey, have found the Institute's plan overcomes these possible liability problems.

Elected to the Trial Board

Richard S. Chamberlain, Massachusetts
Cletus F. Chizek, Indiana
James P. Doyle, Iowa
Arthur B. Foye, New York
I. H. Krekstein, Pennsylvania
Lawrence J. Scully, Pennsylvania
Robert M. Williams, Arizona

Professional Ethics

The committee has under consideration the language of a disclaimer to be used by an auditor who is not considered independent under the Institute's new Rule 1.01. When final agreement on such language is reached, it will be published in *The CPA* as a numbered opinion.

At its meeting in December 1963, the committee approved for submission to the executive committee and to Council four proposed amendments to the Code of Professional Ethics — see texts on page 10.

In the last year the committee has considered forty-eight complaints against members of the Institute for alleged violations of the Code and By-Laws.

Leadership changes in PD program

William Salowe has been named to succeed Louis W. Matusiak as director of the Institute's professional development division.

Mr. Salowe joined the Institute in 1959 as a technical assistant in the professional development division. He became a manager in the division in 1962 and assistant division director in 1963.

A member of the Institute since 1956, and of the New Jersey Society of CPAs, Mr. Salowe received his M.B.A. in accounting from Rutgers University in 1960 and a B.S. in commerce from the University of North Carolina in 1941, where he was elected to Phi Beta Kappa.

Robert Sempier, manager, auditing procedure, and prior to that, manager, management of an accounting practice, will fill the position of assistant director, PD division. He is an AICPA member, an honor graduate of Fairleigh Dickinson University (M.B.A. in accounting) and an active committeeman in the New Jersey Society of CPAs.

Mr. Matusiak, who was the first director of the division when it was started in 1958, will remain as division director until August 1, the effective date of his resignation. At that time he will become a partner in the Chicago-based firm of Alexander Grant & Co.

Members Will Vote on These Amendments to Code of Ethics

Proposed Rule 2.01

"A member or associate shall not express his opinion on financial statements unless they have been examined by him, or by a member or employee of his firm, on a basis consistent with the requirements of Rule 2.02.

"In obtaining sufficient information to warrant expression of an opinion he may utilize, in part, to the extent appropriate in the circumstances, the reports or other evidence of auditing work performed by another certified public accountant, or firm of public accountants at least one of whom is a certified public accountant, who is authorized to practice in a state or territory of the United States or the District of Columbia, and whose independence and professional reputation he has ascertained to his satisfaction.

"A member or associate may also utilize, in part, to the extent appropriate in the circumstances, the work of public accountants in other countries, but the member or associate so doing must satisfy himself that the person or firm is qualified and independent, that such work is performed in accordance with generally accepted auditing standards, as prevailing in the United States, and that financial statements are prepared in accordance with generally accepted accounting principles, as prevailing in the United States, or are accompanied by the information necessary to bring the statements into accord with such principles."

Proposed Rule 2.03

"A member or associate shall not permit his name to be associated with statements purporting to show financial position or results of operations in such a manner as to imply that he is acting as an independent public accountant unless he shall:

(a) express an unqualified opinion; or

(b) express a qualified opinion; or

(c) express an adverse opinion; or

(d) disclaim an opinion on the statements taken as a whole and indicate clearly his reasons therefor; or

(e) when unaudited financial statements are presented on his stationery without his comments, disclose prominently on each page of the financial statements that they were not audited."

Proposed Rule 3.04

"Commissions, brokerage, or other participation in the fees or profits of professional work shall not be allowed or paid directly or indirectly by a member or associate to any individual or firm not regularly engaged or employed in the practice of public accounting as a principal occupation.

"Commissions, brokerage, or other participation in the fees, charges or profits of work recommended or turned over to any individual or firm not regularly engaged or employed in the practice of public accounting as a principal occupation, as incident to services for clients, shall not be accepted directly or indirectly by a member or associate."

Proposed Rule 4.02

"A member or associate shall not practice in the name of another unless he is in partnership with him or in his employ, nor shall he allow any person to practice in his name who is not in partnership with him or in his employ.

"This rule shall not prevent a partnership or its successors from continuing to practice under a firm name which consists of or includes the name or names of one or more former partners, nor shall it prevent the continuation of a partnership name for a reasonable period of time by the remaining partner practicing as a sole proprietor after the withdrawal or death of one or more partners."

New courses will barnstorm the country. PD offerings cover MS practice . . .

Most CPAs recognize the importance of management services to the growth of their practices and to the profitability of their smaller business clients. But many practitioners still find themselves confronted with a sizable roadblock — getting started.

The new PD course, "Developing a Management Services Practice," solves this basic problem by exploring the various answers to the following questions:

1. How can you determine what management services should be offered by your firm?
2. Who should be assigned the responsibility for conducting management services engagements?
3. What are the various possible sources for obtaining clients? What techniques may be used?
4. Should you prepare a "management letter" and review it with your client at the conclusion of each audit engagement?
5. How can a survey questionnaire point out areas in which management assistance may be needed?
6. Should you use a written or oral form or a combination of both to present management services reports to clients?
7. How can you best handle client resistance to your management services fee?

Participants in the clinic have an opportunity to discuss—in small groups under the guidance of experienced practitioners—the answers to these and other questions. The clinic includes presentations by successful CPAs who explain the methods, attitudes and procedures they have followed to make management services an important part of their practices.

In addition to selected reading materials, participants also receive a specially prepared manual of ten actual case histories and reports.

The program will be presented in Pasadena, Calif., May 25-26; Palo Alto, Calif., May 28-29; New York City, June 15-16; Baltimore, July 9-10; and Philadelphia, July 23-24.

. . . systems, taxes

The Institute's PD division expects capacity crowds for presentations of its two new lecture programs, "Systems and Procedures Engagements" (Seattle, Washington, July 16-17) and "Current Problems in Taxation" (Washington, D.C., June 22-23; Denver, Colorado, July 23-24).

The management services program will present the actual steps involved in performing a systems engagement and will cover such areas as determination of scope and objectives, planning the approach to the engagement, fact gathering and fact analysis, and survey conclusions.

"Current Problems in Taxation" will present sessions on tax accounting problems, and individual, corporation, and personal and business tax problems. The course will also deal with changes resulting from the Revenue Act of 1964 and will highlight such subjects as income averaging, multicorporate enterprises, and fringe benefits. Mitchell Rogovin, Assistant to the Commissioner of Internal Revenue, will lecture on foundations and charities.

The registration fee for each program, which includes luncheons and lecture outline materials, is $35. Members may get further information from the Professional Development Division, AICPA, 666 Fifth Avenue, New York, N.Y. 10019.

Institute to probe success factors on Uniform CPA Examination with aid of IBM optical scanner

What are the qualities that make for success on the Uniform CPA Examination?

That's what the streamlined questionnaire and reporting system developed by the Association of CPA Examiners and the Institute's education division will attempt to find out.

The Association has had a Uniform Statistical Information Questionnaire for several years, but the existing system has not been adaptable for all states and relatively few state boards of accountancy have participated in the system.

Under the new system, the analyses and reports will be prepared by computer. The IBM 1230 Optical Mark Scoring Reader with a card punch attachment will be used to transfer data from the candidates' questionnaires directly to punched cards.

The Institute will process the questionnaires, perform the analytical work for each state and provide each state with a report on its candidates. In addition, a summary analysis and report will be prepared for the entire United States.

The information the questionnaire seeks remains basically the same: education, scholastic record, type of CPA preparation, and experience.

The Association will make test runs of the questionnaire on the May 1964 examination. Then it will ask every state board of accountancy to collect the questionnaires from all candidates sitting for the November 1964 CPA examination.

Tax group asks changes in "most complex" regs

"Perhaps the most complex body of regulations ever created" — that's how the committee on Federal taxation evaluates IRS' proposed regs under Section 963.

This Section, which was added to the Internal Revenue Code by the Revenue Act of 1962, deals with receipt of "minimum distributions" of earnings and profits by domestic corporations which are shareholders in "controlled foreign corporations."

In order to secure the benefits of Section 963, the proposed regulations require the taxpayer to choose between a number of elections and options which are referred to in various sections of the regulations. The committee recommended that a more simple plan be developed to permit taxpayers to receive the benefits of the relief measure. In addition, the committee pointed out that there are two factors which are particularly undesirable and contribute unnecessarily to the taxpayers' burden: first, the concept of a pro-rata minimum distribution from each corporation in a chain or group and, second, the new rules for determining consolidated earnings.

APB members re-elected; vacancies filled

Council has confirmed the reelection for three-year terms commencing Sept. 1, 1964 of the seven APB members whose service would have been completed next fall: W. Allen Crichley, Ohio; Walter F. Frese, Mass.; LeRoy Layton, N.Y.; L. H. Penney, Calif.; Ira A. Schur, N.Y.; Wilbert A. Walker, N.Y.; Robert E. Witschey, W. Va.

Council also approved the recommendation that Robert M. Trueblood, Ill., and Oral L. Luper, N.Y., be appointed to fill vacancies.

J. William Hope

Former Institute President J. William Hope died April 30. The senior partner of the Bridgeport, Connecticut, firm bearing his name, Mr. Hope served his profession in almost every possible role. In his state he had been both chairman of the Board of Accountancy and president of the Connecticut Society.

Mr. Hope became an Institute member in 1927 and in 1936 began an impressively full career of Institute service. Appropriately enough, he started with the committee on development of the profession and from then on was continuously active in the Institute, serving on some 17 different committees, the Trial Board, the Board of CPA Examiners, and the Benevolent Fund.

He was on the executive committee for seven terms, a vice president in 1948-49 and president in 1951-52.

CPA

JUNE 1964

The CPA is the membership bulletin of the American Institute of Certified Public Accountants, Inc.
666 FIFTH AVENUE, NEW YORK, N. Y. 10019

Second class postage paid at New York, N. Y.

CPA

Action on Council's APB resolution

The special committee authorized by Council's resolution concerning Accounting Principles Board Opinions already has been at work for several weeks. In a special report for members, President Clifford V. Heimbucher describes the qualifications of the committee, discusses the tasks before it, and reviews the Council deliberations which led to adoption of the resolution. (See page 4.)

CPA population explosion: Firms grow . . .

Census figures are in, showing how firms with AICPA members have fared in the last few years. By almost any measure, they've grown — in number of partners, in staff size, in gross billings.

And the nature of their professional work has changed: management services has increased markedly; the decrease in write-up work is a particularly noticeable trend for all firms.

How does your firm compare with the average? See the story on page 7.

. . Membership reaches milestone . . .

The 50,000th member joins the Institute this July. Who he can be isn't certain at the moment, but the story on page 2 tells what he is like if he is a typical new member.

. . Council reorganizes to meet the demand

Population changes seem to call for reapportionment these days, and the Institute is no exception. If Council continued to grow at its current rate, it could consist of as many as 320 members in1980 — an unwieldy number for a governing body with limited time for deliberation. Council has approved a reapportionment plan to maintain itself at an efficient size for a representative body. See the Call to Meeting, page 12, for these proposals, which members will discuss in Miami and vote on next year.

World of tomorrow for CPAs in Miami

The Call to Meeting also describes the proposed new ethics rules and other business to be discussed at the October annual meeting. Once that business has been conducted, members will leap eleven years ahead to see what 1975 holds in store for the profession. Most of the mentors for this tour of the profession's future have been selected — see page 2 for who they are and what phase of the future they will explore.

Speaking about ADP and the future of accounting

The two are closely linked, according to a pattern speech which members may want to order from the Institute. The paper can be delivered as it stands or used as the framework for a more personally prepared speech. It could come in handy for CPAs who are asked to give "just a short talk explaining computers" to such audiences as service clubs, school groups, or even a spouse. See story on page 10.

The CPA, July-August 1964. Published monthly, except July-August when bimonthly, for membership of the AICPA, Inc. Vol. 44, No. 7. Publication and editorial office: 666 Fifth Ave., New York, N. Y. 10019. Second-class postage paid at New York, N.Y.

Seers for Miami meeting announced; members have choice of crystal balls

Members will have an expert set of guides for peering into their professional futures at the annual meeting in Miami.

At the Tuesday morning session, October 6, they will be introduced to a broad view of the business world of 1975. At this general session Dr. Ezra Solomon, a nationally known educator and consultant on economics and fiscal policy, and Dr. Thomas L. Whisler, a distinguished teacher and lecturer on organization and industrial management, will discuss how socio-economic changes over the next decade are likely to affect the accounting profession in the United States.

Then, on Tuesday afternoon, members can decide which area of practice they want to focus on in the future. Three simultaneous sessions will be offered.

The Future of Tax Practice will be discussed by AICPA members Donald T. Burns and Clarence F. McCarthy, and Thomas J. Graves, chairman of the committee on Federal taxation. AICPA Vice President William H. Holm will moderate.

The Future of Management Services will be examined by AICPA members Bertrand J. Belda, Arthur E. Fox and Herman C. Heiser, chairman of the committee on management services. AICPA Vice President J. T. Koelling will moderate.

The Future of the CPA's Attest Function will be explored by Robert M. Trueblood, who is chairman of the long-range objectives committee, and by William C. Norby, who is president of the Financial Analysts Federation and a vice president of the Harris Trust and Savings Bank of Chicago. This session will be under the chairmanship of AICPA Vice President J. Earl Pedelahore.

Come Wednesday morning, members may choose from three simultaneous sessions forecasting the impact of change on the profession's institutions. AICPA members Kenneth B. Wackman and former President J. S. Seidman will predict how the *structure of the profession* is likely to shift — the relationships between individual practitioner and firm, the roles of the professional societies. AICPA nominee for treasurer, David F. Linowes, will moderate at this session.

At another meeting, *education and personnel* will be discussed by two members of the Common Body of Knowledge Commission, Richard S. Claire and Charles E. Johnson, dean of the College of Liberal Arts at the University of Oregon, and by the Commission Study Director, Dean Robert H. Roy of Johns Hopkins University. Appropriately, the chairman will be AICPA Vice President William J. von Minden who is both a practitioner and an educator.

At a third session, the *maintenance of standards* will be considered by AICPA members William P. Hutchison and John R. Ring, chairman of the committee on professional ethics, and by AICPA Director of Technical Services Richard C. Lytle under the chairmanship of LRO committee member Malcolm M. Devore. They will evaluate future possibilities for the statutory basis of the profession, ethics and discipline and the need for research.

At the Wednesday luncheon meeting, Earl Newsom, who has frequently consulted with the Institute on public relations matters, will consider that aspect of the profession's future.

As previously announced, the annual business meeting and the installation awards luncheon will be held on Monday, October 5. (See the Call to Meeting in this issue for more details.) Information about hotel reservations and advance registration may be secured by writing the AICPA membership relations department or by referring to the June *CPA*.

Membership population explosion? 50,000th CPA will become active in the Institute this summer

Sometime this July, the 50,000th CPA will become a member of the American Institute. This means it has taken less than ten years for membership to double — the 25,000th member was admitted on January 28, 1955.

Right now number 50,000 is a sort of Unknown CPA; his identity won't be discovered until over 300 CPAs are admitted in July. But if he is a typical new member, number 50,000 is a college graduate with a major in accounting, and perhaps some graduate work. He had a "B" average, and it is about a 50-50 proposition whether he is with a national or a local firm. His firm probably pays his dues, but this wasn't the deciding factor in his membership decision.

He recently passed the CPA examination. He didn't make it all the way on his first try, but on his second or third attempt passed the remaining parts of the examination. Chances are that this member-to-be is about 27 years old, married, and a senior staff accountant.

That's the typical picture of the new member. But number 50,000 could turn out to be a mature man who is joining the Institute later on in his professional career. Or, for that matter, he could turn out to be a she.

Research study on goodwill outlined; comments from members are invited

George R. Catlett, CPA, of Arthur Andersen & Co., Chicago, has recently undertaken a study of accounting for purchased goodwill in business combinations for the Institute's accounting research division. Although the study will concentrate on the question of accounting for goodwill, it will utilize an earlier accounting research study—*Accounting Research Study No. 5*, "A Critical Study of Accounting for Business Combinations," by Arthur R. Wyatt – to treat the entire problem of accounting for business combinations.

The disposition to be made of purchased goodwill has historically been one of the troublesome problems in accounting for business combinations. Over the years, several alternative treatments have developed.

If the combination is treated as an acquisition of one corporation by another, purchased goodwill is capitalized as an asset in the balance sheet. Subsequent accounting under the acquisition approach depends upon whether the asset is assumed to have an indefinite or a limited life. In the latter case, the goodwill is amortized against revenue; in the former, it is retained on the balance sheet until it has become worthless or its life has become limited.

An alternative method treats the combination as a pooling of interests. This method owes a substantial measure of its popularity to its avoidance of the problem of goodwill by accounting only for predecessor book values.

The present study will trace the history of accounting for goodwill in order to place the problem in perspective. It will also examine the nature of goodwill as a basis for solution of the problem of its disposition. This step will necessarily involve consideration of similarities and differences between purchased and nonpurchased goodwill. The measurement of goodwill in a business combination will likewise be studied, including the problems of determining total consideration involved and the problems of assigning fair values to assets other than goodwill.

The former study (*Accounting Research Study No. 5*) dealt primarily with purchase versus pooling of interests as alternative accounting methods. The present study will concentrate on the subject of goodwill. However, its conclusions are expected to cover the entire problem of accounting for business combinations.

A project advisory committee has been appointed to assist the research supervisor and the director of accounting research with the project. (See box, this page.) Members of project advisory committees review the research plan in its early stages, act as a sounding board for conclusions reached by the staff, and review the draft of the study to advise the director as to its suitability for publication.

After the study has been published and comments received, the Accounting Principles Board will evaluate the entire project and decide whether to issue an Opinion on the subject.

According to Paul Grady, director of accounting research, comments and suggestions from members and other interested persons on this project are most welcome. They should be addressed to Director of Accounting Research, American Institute of CPAs, 666 Fifth Avenue, New York, N.Y. 10019.

Project Advisory Committee

Leonard Spacek, Chairman	Arthur Andersen & Co., Chicago
Charles F. Axelson	United States Gypsum Company, Chicago
Donald J. Bevis	Touche, Ross, Bailey & Smart, New York City
Philip L. Defliese	Lybrand, Ross Bros. & Montgomery, New York City
Homer Kripke	Allied Concord Financial Corp., New York City
William A. Paton, Sr.	University of Michigan, Ann Arbor
J. S. Seidman	Seidman & Seidman, New York City

Management Services Handbook — *The Accountant's Contribution to Planning, Systems, and Controls* was published by the Institute in June. The price is $9.

The 400-page book provides ideas and suggestions for management services work which could be performed by the average CPA. Coverage of the subject includes management controls, financial planning engagements, inventory and production controls, systems and procedures analysis, systems mechanization, cost reduction, office management and operations research.

FROM THE

PRESIDENT

CLIFFORD V. HEIMBUCHER

The Accounting Principles Resolution

IT HAS BEEN several decades since the profession has grappled with an issue as powerful as the Accounting Principles Board proposal. I regard the Council's resolution on that issue as a significant achievement.

I'm pleased to tell you that an outstandingly qualified group of CPAs has accepted appointment to a special committee to carry out Council's resolution. The resolution adopted by a vote of 124 to 51, reads:

"RESOLVED—That it is the sense of this Council that reports of members should disclose material departures from opinions of the Accounting Principles Board, and that the President is hereby authorized to appoint a special committee to recommend to Council appropriate methods of implementing the substance of this resolution."

The men who have agreed to serve on the committee have had distinguished experience in the phases of the profession which would be most affected by any determination on accounting principles. Yet they bring a fresh viewpoint to the question. None of them served on the APB or recently on the executive committee.

The chairman of the special committee, William W. Werntz, served as chief accountant of the SEC, chairman of the committee on accounting procedure, and a member of the special committee on the research program. Working with Mr. Werntz will be the chairmen of two of the Institute's committees most directly concerned with accounting principles —Albert J. Bows of the committee on auditing procedure, and John R. Ring of the committee on professional ethics; the retiring AICPA director of research, Paul Grady; two past presidents of the Institute, J. S. Seidman and Maurice H. Stans; and the president of the American Accounting Association, Glenn A. Welsch.

I have told the committee that I see its tasks as these:

1. *Propose specific implementation* as called for by the resolution. This could take the form of suggested language for auditors' opinions. Your committee should, I believe, make a recommendation concerning the degree of authority to be given to the resolution, e.g., should it be a recommendation of Council, should it be ratified by the members, should it be a part of the By-Laws, or what would you propose?

2. *Review* the entire matter of the status of opinions of the Accounting Principles Board and the development of accounting principles and practices for reporting purposes. From this review, develop and recommend to Council a general statement of philosophy, purpose, and aims in this area.

3. *Propose further implementation* of that general statement, if you feel that is appropriate. This could involve a step program, providing for some recommended action to be taken soon, plus some ideas or aims for further study or deferred consideration.

The committee has assumed these tasks with the hope of finding a decisive but moderate position which almost everyone in the profession will support.

Mr. Werntz has asked me to urge members to inform him of their views. I add my own plea that they do so as quickly and as fully as possible.

This is a big job. It looms even larger in view of the committee's determination to take early action. The committee believes that Council members have the right to know what form the implementation of their resolution can take and to express their views on it. In hopes that the committee will have made significant progress, I have tentatively scheduled a two-day (rather than the usual one-day) meeting of Council this fall to provide ample time for considering the committee's recommendations.

I think both the debate and the resolution show that Council clearly believes the profession should accept a responsibility for raising the status of opinions of the Accounting Principles Board. However, Council did not want to take precipitate implementing action. In particular, I think that Council had serious questions concerning the detailed implementation proposed in the "white paper" which had been approved by the executive committee and sent to Council members in advance of the meeting described for members in the March *CPA*.

All CPAs would have been proud if they could have witnessed the discussion of the APB proposal – proud of both the high level of the discussion and of the intellectual vigor of the comments. I strongly feel that members should have the benefit of knowing the essence of the discussion. However, Council meetings must be shielded from the full glare of publicity, especially newspaper publicity, if they are to encourage the fullest and frankest discussions of the profession's problems.

As presiding officer, I had to pay particularly close attention to everything said, yet maintain a completely disinterested role. Perhaps from this unique vantage point I can offer members an impartial account of the main points raised in that debate—the principal points which the special committee will be considering.

One. *Who determines what is "generally accepted"?* One speaker summed up the feeling of several Council members in these words: "One of the most imperative obligations of the profession is that of setting its own standards. Only the profession itself has sufficient knowledge to do this." Another said that the significance of the term "generally accepted accounting principles" was simply "accepted by us." He also foresaw a strengthening of the profession in having one research staff checking for all firms, large and small, on the substantial authoritative support for accounting practices.

Some people suggested that APB pronouncements should simply be considered the "preferred" treatment in their subject areas.

Other members contended that the accounting profession does not have the right to take the words "generally accepted" out of the public domain: that this could violate both the dictionary and the professional meanings of the words "generally" and "accepted."

Two. *How does this affect people outside the profession?* Speakers both for and against the proposal referred to the interests of various publics in the outcome of the deliberations on the APB proposal — the investing public, clients, Congress, and the SEC. (I think that recognition of the profession's responsibilities to these groups was one of the strong motives which led to adoption of the Council resolution.) Some members predicted that the proposal would engender great respect for the profession among clients; others contended that the proposal would cause the loss of a good share of the support now given by business executives.

Three. *Would it be helpful to have an independent review of operations of the APB?* Speakers of all persuasions, including many members of the APB, agreed that periodic surveys of the APB, including the composition of its membership, might find improvements which could be made.

Should non-Institute members serve on the Board? One Council member endorsed the idea of having some nonmember representatives from industry, while another opposed it on the theory that Board members should be directly concerned with auditing and reporting problems in their work.

Other questions from the floor ranged from what publicity should be allowed on Board deliberations to whether the Board should endorse alternative treatments in some cases.

Four. *What effect would the proposal have?* A proponent maintained that the proposal did not necessarily require an auditor to qualify his opinion on financial statements which deviate from effective pronouncements of the Board. He called it merely a disclosure requirement. Another said, "To date there is no means of knowing, certainly on the face of the certificate, whether Board pronouncements have been followed or not."

But a spokesman against the proposal saw it as requiring a qualification when the auditor disagreed with a debatable APB opinion, even when the auditor concurred in the client's selection of a method having authoritative support but not approved by the APB. Another speaker objected that the proposal's implementation would open the door to such a variety of reporting practices as to undermine the true significance of the auditor's opinion.

Other speakers raised these questions: Would the proposal create a distinction between "fair presentation" and "generally accepted accounting principles" in an auditor's opinion? Would it relegate former bulletins of the accounting procedures committee to a sort of limbo status? What kind of auditor's opinion would be called for under the proposal?

Five. *Would the proposal offer the best available method for achieving the objective?* All members agreed on the great desirability of narrowing the areas of difference in accounting practices. They differed in the way in which this objective should be achieved. Some felt that the APB should win leadership by the persuasiveness of its opinions. Others felt that the profession would set a more persuasive example by accepting the obligation to disclose deviations from APB pronouncements.

The existence of so many questions, relevant or not, seemed to form one of Council's reasons for calling for the establishment of the special committee.

As one member put it, "Close votes may win democratic elections but they are not the basis on which this profession is going to go forward."

It was clear, after three days of debate, that a very substantial majority of the Council was in agreement on basic objectives. But it was also apparent that the proposal's complexity might well warrant further study.

It was in this spirit that the Council fashioned its resolution. In this spirit the special committee is carrying out this mission.

Saludos, Senor Heimbucher

As soon as the spring Council meeting ended, Mr. and Mrs. Heimbucher flew from Florida to Guatemala. Their three-day stay south of the border was scheduled strictly for business, but they were surprised to find themselves guests of honor at a formal luncheon tendered by the Corporacion de Contadores de Guatemala and the Asociacion Nacional de Contadores.

Senor Carlos Amaya Pardo, director of the Corporacion, and Senor Jose Mario Balcells, vice president of the Asociacion, extended a welcome on behalf of their respective organizations and expressed the great pleasure of the other 31 Contadores present at the first visit to their country by an AICPA president. Mr. Heimbucher rose, promised to transmit to the Institute "las gratas impresiones recibidas" and proceeded — to the delight of his audience — to give an extemporaneous talk in Spanish.

Two new Institute committees appointed: auditing EDP, and relations with FPC

The Institute has formed an *ad hoc* committee on auditing EDP.

The committee will approach its objectives by (1) reviewing and revising the draft of a proposed Institute booklet, "Auditing, EDP and the CPA," prepared by Wayne S. Boutell, CPA, and by (2) meeting for full committee discussion of specific problems as required to prepare the draft for publication.

The members of the *ad hoc* committee on auditing EDP are: Irving Richardson, chairman, Alexander Grant & Co., Chicago; A. Crawford Clarkson, Jr., Clarkson, Harden and Gantt, Columbia, S.C.; Herbert W. Bader, Lybrand, Ross Bros. & Montgomery, New York City; Kenneth Cadematori, Price Waterhouse & Co., New York City; and Norman Cogliati, Puder & Puder, Newark, N. J.

The Institute has also named a committee on relations with the Federal Power Commission.

The new committee has as its goals:

- Considering problems related to the practice of CPAs before the FPC
- Assisting FPC in an advisory capacity in consideration of accounting and auditing problems
- Providing liason with other AICPA committees and the FPC
- Informing Institute members of FPC requirements and other developments of interest
- Avoiding inconsistency between generally accepted accounting principles and the financial reporting requirements of FPC

To these ends, the committee will meet with representatives of the FPC accounting staff and, possibly on occasion, with FPC commissioners; review and consider proposed regulations or other actions of the agency which might be of interest to practitioners; and advise the committee on relations with the Federal Government regarding matters referred to this committee and keep it informed as to developments in the FPC area that might be of interest to it.

The chairman of the committee is Walter R. Staub, Lybrand, Ross Bros. & Montgomery, New York City. Other members are: Clayton Bullock, Haskins & Sells, New York City; Robert E. Field, Price Waterhouse & Co., New York City; Stanley Porter, Arthur Young & Co., Tulsa, Oklahoma; Irwin F. Sentilles, Peat Marwick, Mitchell & Co., Dallas, Texas; Richard Walker, Arthur Andersen & Co., Chicago; and Jordan Wolf, Main, Lafrentz & Co., El Paso, Texas.

Benevolent Fund to receive $200,000. Benefactor became CPA in 1904, invested in Stock Market

Harold Burton Hart often expressed a desire to return to the profession some of the rewards which he had derived from it. So, in his will, he provided that the American Institute Benevolent Fund, Inc., should be the principal remainder beneficiary of his estate.

Sometime this fall when the final accounting is completed, the fund will be enriched by approximately $200,000 because of Mr. Hart's wish. As of May 31, 1964, the fund's balance was $312,515. The fund was established in 1933 for the relief of present or former members and their families who, from time to time, may be the victims of financial distress.

Harold Hart died in 1943. His will stipulated that the Institute would receive his bequest upon the demise of his sister, Mrs. Carolina Burton-Hart Newton, who passed away on May 24, 1964.

When the trust was set up after Mr. Hart's death, it had a market value after taxes and expenses of $108,266, the major portion of which consisted of common stock holdings. On May 27, 1964, it was valued at $205,081. Of that amount, $109,915 was invested in common stocks.

Mr. Hart became a CPA in 1904, the year he joined Patterson, Teele & Dennis as a staff member. He was made a partner in 1925 and spent almost all his professional career with the firm, retiring from practice on May 1, 1941.

According to Maximillan Mintz, now a partner in the firm and the trustee of Mr. Hart's estate, Mr. Hart was a "most modest and most conscientious man" who had a keen interest in investments. Mr. Mintz likes to recall the time when, as a very junior staff member in 1940, before he received his CPA certificate, he was asked to explain a notation to Mr. Hart — a man with a reputation for utter precision. Hart judiciously considered the explanation, then broke into a smile and announced, "You are exonerated."

Growth survey finds firms flourishing. These developments stand out . . .

- *Small firm growth sets the pulse for the profession;*
- *An increasing number of college graduates join the ranks;*
- *Management services work has mushroomed in the past 5 years.*

Public accounting is a big profession. The growth of firms in the past five years shows it is getting bigger.

To measure the proportions of the profession, the American Institute conducted a Growth and Nature of Practice Survey. Questionnaires were sent to all firms represented in its membership except for the eight largest firms. Over one-third of the 12,500 questionnaires mailed were returned, and all indicated expansion in nearly every aspect: size of firm, nature of practice, gross income. The seventeen-part survey, which embraced accounting practice from 1958 to 1962, adds another dimension to the profile of the profession currently being studied by the long-range objectives committee.

Size of Firm

The survey grouped CPA firms into three general categories according to staff size:

- Individual practitioners—with or without professional staff
- Firms with 2 to 3 partners
- Firms with 4 partners or more

Individual practitioners made few staff changes within the five-year period. However, 10 per cent had staff who joined the Institute and a third of the firms increased their clerical staffs.

Sixty per cent of the firms increased their professional staff.

Small partnership firms are the ones to watch as barometers of the profession's growth. These firms have been extremely active:

- They surpassed the 1958 statistics for professional staff by more than 50 per cent.
- They increased the number of partners who hold Institute membership and the number of clerical assistants hired by well over a third.
- Eighteen per cent of the firms responding had either merged or purchased a practice during the five years.
- There was an increase of 43 per cent in the number of partners reported by the small partnership group.
- This group also hired more college graduates than any other during the five years. (Of all the respondents, only 9.1 per cent recruited on college campuses; of this figure, the firms with 2 to 3 partners constituted 40 per cent.)

A big percentage of these small partnership firms had used formal intrafirm training programs, had sent staffmen to AICPA staff training programs and to other PD courses, had made use of the Technical Information Service and the library, and had attended the last five annual meetings.

Firms with 4 or more partners. One-fourth of the larger firms either had merged or purchased a practice, and over 70 per cent had increased the number of professional staff members.

Firms with 4 to 6 partners increased the number of partners by 70 per cent during the five years, but they constituted only 9 per cent of the total firms responding. Perhaps because only a small percentage of 4-to-6-partner firms returned the questionnaire, this group showed little activity in relation to the others. However, the 310 firms which returned the questionnaire indicated big increases in size. An even smaller number of large firms responded to the survey. There, too, the figures show a steady increase in the firm size.

Derivation of Gross Billings

One question brought to light a trend which should have far-reaching significance for all CPAs: "What was the percentage of gross billings derived from auditing, taxes, management advisory services and write-up work—1958? 1962?"

Management services work increased overwhelmingly for firms of all sizes; individual practitioners showed a 35 per cent increase in five years. All of the largest firms showed an increase; none of them showed a decrease.

The increase of management services work is growing in inverse proportion to the decrease in write-up work. Many of the firms responding said they used automatic data processing for write-up work either in the office, at a service bureau or both.

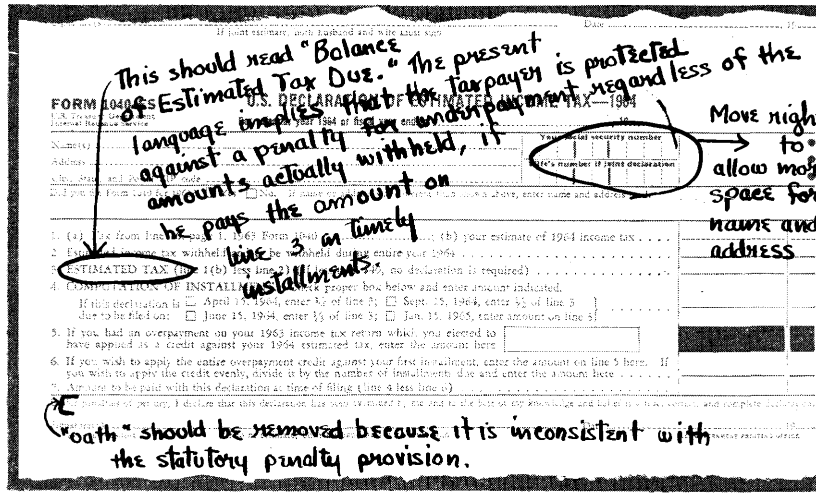
This decrease in write-up work as a major part of gross billings is particularly apparent in all firms; perhaps those using ADP have more time to participate in a management services capacity.

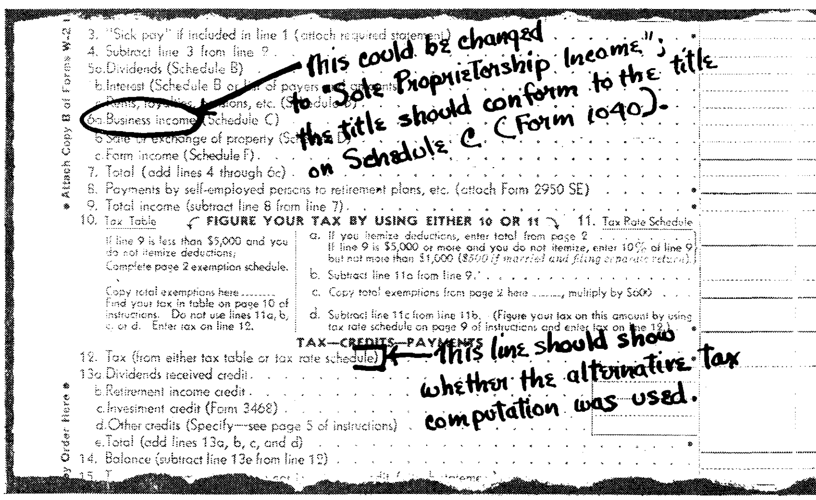
Tax work remained about the same although the larger firms showed a decrease, and auditing showed an increase in all firms, except for those with over 6 partners.

Ninety-three per cent of all the firms reported that their gross fees had increased, the median increase being 31-40 per cent.

Of the 3,906 replies, 542 were from firms not in existence before 1958; these were mostly individual practitioners, although 132 were firms with 2 to 3 partners.

An improved 1040? AICPA recommends changes in tax forms





That oh-so-familiar face of Form 1040 will look somewhat different next year if the Internal Revenue Service follows AICPA recommendations.

The illustrations here show how the Institute's committee on Federal taxation's suggestions could improve two of the commonest forms, 1040-ES and page 1 of 1040. These suggestions are part of a continuing program in which the AICPA has co-operated with the IRS in making the forms more legible and usable.

The AICPA committee made four general recommendations:

1. On all appropriate forms, an asterisk or other symbol should be used to denote all lines which *must* be filled in for purposes of ADP.

2. All forms should be printed on standard-sized stock, preferably 8½ x 11. If this is not possible, paper sizes should be standardized at least to the extent that forms are intended to be used together; e.g., Form 1040's Schedules B, C, D and F should be the same size as Form 1040.

3. Schedules intended as attachments to returns, especially attachments to Form 1040, should not require repetition of taxpayer's name and address in each case. Repetition of the name, social security number, or both, should be sufficient in the event a schedule becomes detached.

4. Forms 1041, 1065, 1120-S, etc., should provide adequate schedules for showing the distributees' (beneficiaries, partners and shareholders, respectively) shares of investment credit, dividends, contributions, capital gains and other items that are "passed through."

Excerpts of some of the tax committee's suggestions for particular forms follow:

Form 709. 1. The "yes" and "no" boxes provided in A and B, page 1, should be moved to the right-hand margin of the form and placed vertically.

2. A combined gift tax return should be provided where gifts of one spouse are all consent gifts. This would eliminate need for two separate gift tax returns in the case of joint gifts of a present interest in excess of $6,000 or gifts of a future interest.

Form 1040. The spaces marked "State Income Taxes" in the taxes box on page 2 should be revised to include local income taxes as well.

Form 1040 Schedule C. The title of the schedule should be changed because it is misleading. It could be changed to "Profit (or Loss) From Sole Proprietorship" or "Profit (or Loss) From Solely Owned Business."

Form 1041. Schedule C, page 2, should be expanded to accommodate information pertaining to beneficiaries' shares of investment credit, foreign tax credit, etc. Space can be provided by transferring the questions following Schedule C to the space now occupied by Schedule F. This schedule should be eliminated because it is rarely required and can be replaced by a separate page, as in the case of Schedule J.

Form 1065. 1. It appears unnecessary to ask in what county the partnership is located. Item B on page 1 should therefore be eliminated unless a clear need for this information exists.

2. Schedule K, page 5, should be expanded to provide for partners' shares of such items as investment credit, contributions, dividends, etc.

Form 1120. 1. Space should be provided on page 1 of the form for the previous year's tax.

2. Line 4, Schedule A, Cost of Goods Sold, requires that "other costs per books" are to be entered and details are to be furnished on an attached schedule. In many cases the costs "per books" included in such category on the books of account involve items which are to be classified in the return as deductions in lines 14 through 26 of page 1. Therefore, the amount entered at line 4 of Schedule A in many cases does not include all of the items shown by the books as other costs. Some modification of line 4 should be made, such as "other costs."

Form 1120-S. A form or series of forms should be available for termination or revocation of an election under Subchapter S, and for consent or ratification of an election by new shareholders, including estates.

Form 1139. Item 7 should be revised to read, in substance, "Has Form 1138 been filed? (yes, no.) If yes, was an extension of time granted, etc?" The present wording of Item 7 has caused unnecessary confusion. If Form 1138 has not been filed, neither the "yes" box nor the "no" box should be marked. At best this leaves a feeling of incompleteness.

Sub-boards render decisions on cases of ethics violations, criminal convictions

Sub-boards of the Institute's Trial Board have:

- Suspended one member for having been convicted of criminal contempt
- Admonished another for failure to reply to ethics committee communications
- Expelled a third for violating reporting standards
- Expelled a fourth for failure to file personal tax returns.

New York, January 10. A sub-board found that a member had committed an act discreditable to the profession in that he had been convicted of criminal contempt and fined $10,000 by a U.S. District Court for failure to comply with a Grand Jury subpoena served on him during an investigation of a savings and loan association of which he was an officer.

The sub-board decided that his Institute membership should be suspended for six months.

New York, April 24. A member was charged with failure to return books and records to a former client and with failure to reply to three inquiries sent to him on behalf of the ethics committee. It appeared that by the time of the trial the member had transmitted to the client all the client's books and records in his possession.

The sub-board found that the member had committed an act discreditable to the profession in not having replied to the three ethics committee inquiries and decided that he should be admonished to observe his professional responsibilities more carefully in the future.

New York, April 24. A sub-board found that Roderick E. Davis, of 78 North Franklin Street, Wilkes-Barre, Pennsylvania, had violated Rule 2.03 of the Code of Professional Ethics in issuing over his signature as a CPA a letter purporting to show the financial position of a client without the expression or disclaimer of an opinion. The letter, which was addressed to an individual, said that the firm had examined the accounts of the "above company," though no company was named. Aside from the foregoing, the letter included only a list of assets totaling $815,500 and a statement that "the company has expenses of $53,112.29." It appeared that this letter was used by the individual to whom it was addressed in connection with a real estate promotion.

The sub-board found Mr. Davis guilty as charged and decided that he should be expelled from the Institute.

Denver, May 1. Another sub-board expelled a member for failure to file his personal income tax returns for three years. The respondent had been convicted, on his plea of *nolo contendere,* of the offense of willfully and knowingly failing to file a Federal income tax return for three years. The member had previously offered to resign if the sub-board were to determine that he should be expelled.

However, the sub-board declined to accept his proffered resignation, found him guilty of an act discreditable to the profession and decided that he should be expelled.

Ed. Note: *The Trial Board decides whether the published statement of a case shall disclose the name of the member involved.*

CPA Examination Dates

1964—November 4, 5, 6

Speech portrays profession's future; CPAs' growth is linked with data processing

"If professional accountancy continues to grow at the same rate as in the past, there will be about twice as many CPAs in 1970 as there were in 1960."

Startling? Not really, according to the new speech, "Data Processing Machines and You," prepared by the Institute's education division. Members may request a copy of this speech as a pattern for explaining the accounting implications of data processing to college students and other groups.

Briefly tracing the growth of data processing – ADP, EDP and IDP – over the past thirty years, the text points out, "it seems evident that some people will ride the electronic wave of the future" while "others will be drowned. Accountants will be in a good position to ride it."

"CPAs in particular," the speech continues, "have been aware that data processing is making or helping to make changes in the ways management functions." It notes five trends in this "quiet revolution."

1. Information tends to be produced for more levels of management.

Electronics tends to isolate the factors that are significant for specific managers.

2. Accounting departments tend to become intelligence units.

They are responsible not only for internal information, but also for such external information as market conditions, competitor actions, economic trends, inventory prices and so on.

3. There is a visible trend toward "management by exception."

Because electronic systems must be founded upon exact definitions of norms, there is a greater understanding in management of what constitutes an "exception." Thus there can be much greater efficiency in directing management's attention to the exceptional situations that need attention.

4. There is greater use of simulation and model building.

Although these techniques have been known for a while, the data to be handled are sometimes so voluminous that research in many operations is not feasible without a computer.

5. The financial executive, through control of the intelligence unit and with a computer at his disposal, is in a better position to make suggestions to operating executives.

Some constructive policies in all departments of a business can flow from analysis of factors which only the financial executive, with the help of a computer, is able to make.

In building toward a conclusion, the text poses the question: How can the student as well as the mature practitioner prepare himself to "ride the electronic wave of the future"? It also offers some "obvious" conclusions:

"It seems clear that new accountants will need to know more about statistics, probability and math. Their knowledge of accounting, of auditing practice and of management will have to be deeper. . . . the new accountant will more and more frequently be a man with an advanced degree."

CPAs can help in community program designed to explain planning for family financial security

Do the people in your community –

- Know what their family net worth amounts to?
- Review their insurance, taxes, deeds, mortgages, etc., on a periodic basis?
- Have plans for retirement income in the light of present savings, investments, social security?
- Feel certain that their wills are up to date? Properly drawn?
- Know which of their personal financial records are important? Do their families know where these are kept?

"Family Affairs Month," a cooperative effort of CPAs, local bankers, insurance men and lawyers, provides a program for explaining these and other vital aspects of a family's plan for financial security.

The program is designed for joint sponsorship under the auspices of the local organizations of these four groups whose specialized knowledge makes them best qualified for such a public service project.

CPAs can participate in the program either through serving on one of its several committees or through actual presentations.

The Michigan Association of CPAs pioneered the program. Its success in Michigan and the interest it has aroused in other states have prompted the Institute to publish a guide outlining methods for organizing similar "Family Affairs Month" programs.

The guide:

1. Suggests special TV shows built around the program – "These may take the form of interviews, panel discussions, or simply a straight expository statement about the event and its purposes. . . ."

2. Gives examples of public service spot announcements – "Your family's financial security takes planning – start your plan during Family Affairs Month."

3. Presents actual case studies of unfortunate family situations which could have been avoided if the head of the family had given more thought to financial security.

Technical Information Service helps members solve problems

Survey shows that small firms use TIS most frequently
Larger firms take advantage of Service on occasion

Small firms, large firms, sole practitioners and partners all are getting help from the Institute's Technical Information Service on some of the tough problems which turn up in their practices.

One thousand, one hundred and forty-four firms and individual practitioners, out of the 3,906 which responded to an Institute questionnaire (the eight largest firms were excluded), said they had made use of TIS over the period 1958-1962. Most who asked for advice were either firms with 2-3 partners (494) or individual practitioners (124).

Questions answered by TIS run the gamut of the practical problem areas of accounting, auditing and audit reports. Tax questions, however, are not dealt with as a matter of Institute policy. Complex questions should be submitted in writing.

TIS has been particularly helpful to smaller firms, to CPAs in communities where library facilities are limited, to sole practitioners who lack the opportunity of partnership consultation, to partners in large firms and to those who, for one reason or another, may be reluctant to discuss a matter locally. Often, when a practitioner has reached a tentative solution to a plaguing problem, he will want to compare notes, get a fresh view, or consider alternative solutions. In all cases, TIS adheres meticulously to the rules preserving anonymity and confidences.

Technical Information Service has at its disposal the resources of the Institute's library, the largest specialized accounting collection in the United States, with more than 47,000 items available.

When necessary, TIS specialists discuss questions with other members of the Institute's technical services division or consult experts in various fields in order to arrive at the most reliable and useful conclusions. Here, too, the names of members concerned are held in strict confidence.

Most replies are answered without charge. However, for each reply to a specific technical problem requiring research or considerable expenditure of time by TIS' staff, there is a $25 fee. The charge effects a more equitable distribution of the rising costs of supplying the service to the ever-increasing number of firms and individuals making use of it.

Problems of the "head-scratching" variety arise more and more frequently in the average practice. With the scope of the accounting profession expanding rapidly, practitioners should find the pooled intelligence of TIS increasingly helpful.

By way of illustrating the wide variety of questions which may be asked during an average month by practitioners from around the country, a few inquiries received recently by TIS are briefed below. Do any of them have a familiar ring?

1. How should prospective rentals be treated on the balance sheet of an industrial-leasing concern?
2. Is there a good method for use in valuing an automobile junk dealer's inventory of salvaged parts?
3. What is the proper balance-sheet classification of "warehouse stock," in financial statements of a petroleum producer?
4. Where can we find information regarding what authorization is required to raise corporate officers' and directors' compensation?
5. What is the proper manner in which to present financial information for a "Subchapter S" corporation?
6. How do you establish and control a sales budget for a client?
7. Is there any support in accounting theory for issuing stock dividends on treasury stock?
8. Is there any necessity for a radio broadcasting company to account for "bartering" of advertising time in exchange for the merchandise of local business concerns, when the merchandise is to be distributed free of charge on a give-away program?
9. How do you account for a corporate commitment to pay its retiring president monthly amounts for five years, in consideration of an agreement not to compete and to act as a consultant?
10. Should an industrialist leasing a plant in a depressed area pursuant to a financing arrangement under the Federal Government's Area Redevelopment Administration treat the transaction as "a lease which is in substance an installment purchase?"

No answers to these questions are given here, because the answers vary with the particular circumstances of each case. The questions are, however, typical of those to which TIS supplies answers through research and consultation.

EDMUND F. INGALLS, *Manager Technical Information Service*

Coming up:
The Best of TIS, 1958-62

The Institute hopes to dip into the TIS storehouse and publish some 750 of the most interesting and informative sets of correspondence from the period 1958-62. The volumes will contain scores of citations to materials and will feature an index of 98 major key-word categories.

Notice of Seventy-seventh Annual Meeting American Institute of Certified Public Accountants October 5, 1964

To the Members of the American Institute of Certified Public Accountants:

In accordance with the provisions of Article XIV, Section 3, of the By-laws of the American Institute of Certified Public Accountants, I hereby give notice that the regular annual meeting of the American Institute of Certified Public Accountants will be held at The Americana Hotel, Bal Harbour, Florida, on Monday, October 5, 1964, beginning at 9:00 A.M.

In accordance with the provisions of Article XII, Section 1(a) of the By-laws, the following report of the committee on nominations is submitted to members of the American Institute of Certified Public Accountants.

In accordance with the provisions of Article XV, Section 4, of the By-laws, there are also submitted to the membership proposed amendments to the Institute's By-laws and Code of Professional Ethics which have been approved by the Council.

JOHN L. CAREY
Executive Director

New York, N.Y., July 1, 1964

Report of the Committee on Nominations

The committee on nominations hereby nominates the following for officers and members of Council of the American Institute of Certified Public Accountants:

FOR OFFICERS

President
Thomas D. Flynn, N.Y.

Vice Presidents
Horace G. Barden, Ill.
Maurice J. Dahlem, Calif.
Bernard B. Isaacson, Del.
John R. Ring, Fla.

Treasurer
David F. Linowes, N.Y.

For Council Members at Large
(Three-year terms)
Herman W. Bevis, N.Y.
Louis M. Kessler, Texas
Robert M. Trueblood, Ill.

For Members of Council
(Three-year terms)
Raymond R. Kohler, Alaska
Alexander M. Keith, Jr., Ark.
Tindall Cashion, Calif.
John F. Joyce, Calif.
Robert W. Ruggles, Calif.
Robert S. Warner, Calif.
Harlan H. Holben, Colo.
Bernard J. Zucker, Conn.
Richard L. Barnes, Fla.
Jack W. Lucas, Fla.
Roy L. Ward, Ga.
Valentine L. Tennent, Hawaii
George R. Catlett, Ill.
John P. Goedert, Ill.
George M. Horn, Ill.
John D. Harrington, Ind.
Sherman G. Shapiro, Me.
George O. Sparks, Jr., Md.
Ernest A. Berg, Mass.
Kenneth S. Reames, Mich.
Gerald C. Schroeder, Mich.
William M. Dolan, Jr., Minn.
James W. Clark, Mo.
George D. Anderson, Mont.
Walter C. Witthoff, Nebr.
W. Wayne Bunker, Nev.
John E. Rich, N.H.
George D. McCarthy, N.J.
Fred Rohn, Jr., N.J.
Edward J. Neff, N.M.
Matthew F. Blake, N.Y
Philip L. Defliese, N.Y.
Malcolm M. Devore, N.Y.
Sidney B. Kahn, N.Y.
Eli Mason, N.Y.
R. Gerard Palmer, N.Y.
Mark E. Richardson, N.Y.
Baldwin E. Martz, N.D.
William B. Nicol, Ohio
John S. Schott, Ohio
Presley S. Ford, Jr., Okla.
Albert G. Metz, Jr., Pa.
Daniel L. McKnight, Jr., S.C.
Morris F. Anderson, S.D.
John S. Glenn, Jr., Tenn.
Don C. Chorpening, Texas
Robert J. Hibbetts, Texas
L. Ludwell Jones, Texas
Jordan B. Wolf, Texas
W. Charles Woodard, Texas
Barney Z. Goldberg, Vt.
Hayden Q. Anderson, Va.
W. Kenneth Woolley, Wash.
Willard H. Erwin, Jr., W. Va.
Bernard M. Vaughan, Wis.
Clyde W. Gaymon, Wyo.
Hein Christensen, V. I.

The committee will nominate the following for members of Council on the floor of the annual meeting on October 5, 1964, to fill vacancies which have been created by the election of officers:

For Member of Council at Large
(One-year term)
Richard S. Claire, Ill.

For Members of Council
(One-year terms)
Hilliard R. Giffen, Calif.
Frank A. Gunnip, Del.

Each of the nominees has expressed his willingness to serve if elected. The list of nominations has the approval of all the members of the committee on nominations.

Respectfully submitted,

Robert E. Witschey, Chairman
J. Carlton Updike
Durwood L. Alkire
Thomas G. Higgins
James E. Thayer
James B. Willing
W. Charles Woodard

June 15, 1964

Proposed Amendments to the By-laws

Council has approved for discussion by the members present at the annual meeting, but not for action, the following proposed amendments to the By-laws. Under the provisions of Article XV, Section 5, of the By-laws, following the annual meeting the proposed amendments will be submitted to all members for a vote by mail:

Proposal No. 1

To prevent Council from becoming too large, freeze the total number of "additional" elected members of Council within the meaning of Item (1) of Article VII, Section 1, paragraph (a), of the By-laws, effective immediately after the 1966 annual meeting.

To give effect to this recommended change, it is proposed that Article VII, Section 1, paragraph (a), of the By-laws be amended, effective immediately following the annual meeting of the Institute in 1966, in the following respects:

Change Items (1) and (2) to read in their entirety as follows:

> (1) Each state, territory or possession of the United States or the District of Columbia having at least one member shall have at least one elected member of Council. Until the end of the annual meeting of the Institute in 1971, each such jurisdiction shall also have one additional elected member of Council for each five hundred members in excess of one member, based on membership figures and addresses according to the records of the Institute as of August 31, 1965. Effective immediately following the annual meeting of the Institute in 1971, and immediately following such annual meeting every fifth year thereafter, the total number of Council memberships resulting from the application of the preceding sentence shall be equitably allocated by the committee on nominations among the states, territories, and possessions of the United States and the District of Columbia in accordance with the number of Institute members in each such jurisdiction.
>
> (2) The determination of the number of members in each jurisdiction and the allocation of Council memberships under this paragraph (a) to each jurisdiction shall be made by the committee on nominations at least four months prior to the annual meeting of the Institute to be held in 1971 and each fifth year thereafter, based on membership figures and addresses according to the records of the Institute as of August 31 preceding the date of such determinations, and shall become effective immediately following the first annual meeting held after the making of such determinations.

Change Item (3) as follows: Delete the words "in any year" on line 1. Delete the words "for the immediately preceding year," on lines 4 and 5, and insert in place thereof the following: "by the immediately preceding allocation,"

Proposal No. 2

To increase the number of "at large" members of Council from nine to twenty-one.

To give effect to this recommended change it is proposed that Article VII, Section 1, paragraph (b), of the By-laws be amended, effective April 1, 1965, to read in its entirety as follows:

> (b) Twenty-one members to be elected at large without regard to the jurisdiction in which they reside. At the annual meeting in 1965, seven of such members shall be elected for a term of three years or until their successors shall have been elected, four of such members shall be elected for a term of two years or until their successors shall have been elected, and four of such members shall be elected for a term of one year or until their successors shall have been elected. At the annual meeting in 1966, and at each annual meeting thereafter, seven of such members shall be elected for a term of three years or until their successors shall have been elected; and

Proposal No. 3

To provide that state societies may designate as a Council member any Institute member (rather than only the president or president-elect of such state society, as the By-laws presently provide) for a maximum of six one-year terms.

To give effect to this recommended change it is proposed that Article VII, Section 1, paragraph (e), of the By-laws be amended, effective April 1, 1965, by deleting the present wording in its entirety and substituting therefor the following:

> (e) One member of the Institute designated by the society of certified public accountants of each state, territory or possession of the United States and the District of Columbia, who shall serve for a term of one year or until his successor shall have been designated by such society but who shall not be eligible to serve for more than six successive terms under this paragraph (e); and

Proposal No. 4

To permit the election to the Executive Committee of former members of Council as well as present members of Council, and give such former members of Council who are elected to the Executive Committee *"ex officio"* status as members of Council during their service on the Executive Committee.

To give effect to these recommended changes it is proposed that Article VII, Section 1, and Article IX, Section 2(b), of the By-laws be amended, effective April 1, 1965, as follows:

Change the designation of the last paragraph of Article VII, Section 1, from "(f)" to "(g)" and insert a new paragraph (f) to read as follows:

> (f) Members of the Executive Committee who are not members

of Council by reason of other paragraphs of this section.

Change Article IX, Section 2(b), by inserting after the word "members" in line 3 the words "or former members."

Proposed Amendments to the Code of Professional Ethics

Council has approved for discussion by the members present at the annual meeting, but not for action, the following proposed amendments to the Code of Professional Ethics. Under the provisions of Article XV, Section 5, of the By-laws, following the annual meeting the proposed amendments will be submitted to all members for a vote by mail.

Proposal No. 1

Amend Rule 2.01 to read as follows:

A member or associate shall not express his opinion on financial statements unless they have been examined by him, or by a member or employee of his firm, on a basis consistent with the requirements of Rule 2.02.

In obtaining sufficient information to warrant expression of an opinion he may utilize, in part, to the extent appropriate in the circumstances, the reports or other evidence of auditing work performed by another certified public accountant, or firm of public accountants, at least one of whom is a certified public accountant, who is authorized to practice in a state or territory of the United States or the District of Columbia, and whose independence and professional reputation he has ascertained to his satisfaction.

A member or associate may also utilize, in part, to the extent appropriate in the circumstances, the work of public accountants in other countries, but the member or associate so doing must satisfy himself that the person or firm is qualified and independent, that such work is performed in accordance with generally accepted auditing standards, as prevailing in the United States, and that financial statements are prepared in accordance with generally accepted accounting principles, as prevailing in the United States, or are accompanied by the information necessary to bring the statements into accord with such principles.

Proposal No. 2

Amend Rule 2.03 to read as follows:

A member or associate shall not permit his name to be associated with statements purporting to show financial position or results of operations in such a manner as to imply that he is acting as an independent public accountant unless he shall:

(a) express an unqualified opinion; or

(b) express a qualified opinion; or

(c) express an adverse opinion; or

(d) disclaim an opinion on the statements taken as a whole and indicate clearly his reasons therefor; or

(e) when unaudited financial statements are presented on his stationery without his comments, disclose prominently on each page of the financial statements that they were not audited.

Proposal No. 3

Amend Rule 3.04 to read as follows:

Commissions, brokerage, or other participation in the fees or profits of professional work shall not be allowed or paid directly or indirectly by a member or associate to any individual or firm not regularly engaged or employed in the practice of public accounting as a principal occupation.

Commissions, brokerage, or other participation in the fees, charges or profits of work recommended or turned over to any individual or firm not regularly engaged or employed in the practice of public accounting as a principal occupation, as incident to services for clients, shall not be accepted directly or indirectly by a member or associate.

Proposal No. 4

Amend Rule 4.02 to read as follows:

A member or associate shall not practice in the name of another unless he is in partnership with him or in his employ, nor shall he allow any person to practice in his name who is not in partnership with him or in his employ.

This rule shall not prevent a partnership or its successors from continuing to practice under a firm name which consists of or includes the name or names of one or more former partners, nor shall it prevent the continuation of a partnership name for a reasonable period of time by the remaining partner practicing as a sole proprietor after the withdrawal or death of one or more partners.

Insurance Trust Declares Big Refund

By the refund resolution passed by the insurance committee, participants in the Institute insurance programs will share in a dividend of over $3 million received from the insurance carriers — just a shade under last year's record amount. The refund will be distributed in July.

The Trust now provides about one-half billion dollars life insurance and equal accidental death and dismemberment insurance for some 30,000 CPAs and employees. It is expected that invitations to join either the Group Insurance Plan or the CPA Plan will be sent to members in late August.

LETTERS

Booklet on staff motivation moves members to write

Last evening I read, for the first time, your new bulletin MAP 20: "How to Improve Staff Member Motivation." I say "the first time" because I intend to read it monthly from now on. . . .

I felt quite proud of the achievements of our firm before I read the bulletin. I am still proud because we have done a lot of the things you suggest. But, my pride is mixed with humility when I think of the work still to be done. Your bulletin will be of great help in our efforts to further solve our staff problems.

. . . Staff training and motivation is the responsibility of every partner — not just the one in direct charge of personnel.

JAMES W. KINDELAN
Ring, Mahony & Arner
Miami, Fla.

I have seen nothing in the professional literature that is of more importance as a basis for the behavioral science aspects of firm administration than MAP 20.

. . . MAP 20 is by no means as straightforward and easy as it looks. Almost every sentence is fraught with subtleties and possible misinterpretations. To *really* understand it will require a great deal of hard work including discussion. As the matters involved depend for successful implementation on firm policy, the process should start with:

- A seminar of managing partners and members of firm executive committees
- Multiple (personal) copies of MAP 20 and some means to assure that they are carefully read.

There is gold in these hills.

STEWART Y. MCMULLEN
The American Group of CPA Firms
Evanston, Ill.

Recent moves by two Institute committees and hearings before Congress suggest statistical sampling may merit more use in auditing

Statistical sampling moved toward maturity as an auditing technique this summer.

- The committee on statistical sampling issued its second special report on statistical sampling and generally accepted auditing standards. (See JofA, July64, p.56.)
- Congress held hearings, at which Institute members testified, on a bill to permit statistical sampling techniques in the examination of vouchers.
- The committee on auditing procedure plans to study clients' use of statistical sampling, in place of a complete count, to check inventories maintained on perpetual inventory records.

Kenneth W. Stringer, chairman of the statistical sampling committee, and Karney Brasfield, chairman of the committee on Federal budgeting and accounting, appeared at the Congressional hearings as individuals endorsing the concept of Federal Government use of statistical sampling. The bill would permit sampling for examining vouchers as a replacement for the present requirement of examining each individual item. Mr. Stringer's testimony urged that the bill provide for reasonable administrative flexibility in sampling procedures within a general prescription by the Comptroller General as to standards. (For a fuller account, see the July *Journal*, page 8.)

The auditing procedure committee at its June meeting reviewed a report submitted to it by the committee on statistical sampling. The report recommended that consideration should be given to the issuance of a statement on auditing procedure dealing with the auditor's observation of the physical inventory taking when his client uses statistical sampling to check the perpetual inventory quantities instead of checking each item at least once a year. The report suggested for the auditing committee's consideration the following approach:

". . . Where a concern maintains well kept and controlled perpetual-inventory records and each year checks the quantities shown therein by comparison with counts of a statistical sample of the items, the independent auditor may obtain competent evidential matter through observation of the physical count of the sample, provided the auditor has satisfied himself as to (1) the applicable internal controls, including the pricing and tying in of the perpetual records with the related accounts at least once each year, and (2) the design, selection, and evaluation of the statistical sample."

The subcommittee, appointed to this project, has been instructed also to deal specially with the problem of the "once each year" phrase contained in "Extensions of Auditing Procedure" (Statements on Auditing Procedure No. 1) with regard to perpetual inventories and to study the need for a possible amplification of Statement No. 1 with respect to inventories in general.

Q/A ETHICS

Answers on problems of advertising, independence

Q. *A member asks if the independence of his firm with respect to a client would be jeopardized by having a staff employee of the firm serve as a resident auditor of the client.*

A. The committee believes that an auditor is not necessarily lacking in independence because he or his firm has written up the client's books, made adjusting entries and prepared financial statements. However, if an employee of the accounting firm signs checks, approves vouchers, employs and discharges personnel, or performs any other functions of management, the independence of the firm would be jeopardized. But if the functions of the employee are limited to those normally performed by field auditors, the independence of the firm would not be impaired.

In summary, the committee thinks that a member or a firm of which he is a partner would not be considered independent with respect to any enterprise if a staff member of the firm makes management decisions or exercises the controllership function of the enterprise. (See Opinion No. 12.)

Q. *A member asks if the independence rule prohibits him from serving as a director of or having a financial interest in a client for whom he renders tax services, write-up work and prepares unaudited financial statements.*

A. Rule 1.01 relates only to the expression of opinions on financial statements. Members who render tax services or management advisory services or who perform write-up work or prepare unaudited financial statements for clients need not meet the same standards as those rendering opinions. However, with respect to unaudited statements, members are obliged to observe the requirements set forth in Rule 2.03 and Statements on Auditing Procedure No. 33. (See Opinion Nos. 8, 13 and 14.)

Q. *A member asks if his firm name may be listed in a classified buyers' guide which is published and distributed by a trade association, some of whose members are clients of his firm.*

A. Members are permitted to have listings in the classified section of local telephone directories in order to enable interested persons to locate them. (See Opinion No. 11 of the ethics committee.) However, the committee does not believe that listings in commercial buyers' guides or similar publications are in keeping with the Institute's rule against advertising.

CPA July-August 1964

The CPA is the membership bulletin of the American Institute of Certified Public Accountants, Inc.
666 FIFTH AVENUE, NEW YORK, N. Y. 10019

Second class postage paid at New York, N. Y.

THE SEPTEMBER 1964

CPA

The Miami meeting

Current questions and future prospects are featured on the unusually busy agenda for this year's annual meeting.

Council to consider report on APB Opinions

The Institute's governing body has added an extra day to its regular one-day meeting to consider a report from the special committee on Opinions of the APB.

That committee, called for by resolution of the spring Council, has moved to produce proposals on how "reports of members should disclose material departures from Opinions of the Accounting Principles Board." As *The CPA* goes to press, the committee will be holding its final pre-Council meeting on that report. The essence of the report is presented as a special insert in this issue (2a-2b) so that all AICPA members can give their views on it to Council members before the meeting.

Council will consider the special report, then receive reports from senior committees, in the meeting scheduled for October 2 and 3.

Monday, Oct. 5: Official business

Members in attendance will consider a four-part set of amendments to the By-Laws designed to keep Council apportioned as an effective representative body (*CPA*, June, pages 1-2). Then they will discuss proposed changes in the Code of Professional Ethics (*CPA*, July-August, Call to Meeting, pages 13, 14). These proposals will later go to all the membership for mail ballot.

Tuesday: Prospects for the profession

In the morning the wraps come off the CPA's model of the world in 1975.

At the luncheon address President James E. Robison of Indian Head Mills, described in *Business Week* as a man who plans for every possibility, will depict his view of the next decade.

In the afternoon members can focus on any one of three views of the future in sessions on tax practice, management services, or the attest function.

Former SEC Chairman William L. Cary has accepted an invitation to look ahead "From the Government's Viewpoint" at the attest function meeting.

Wednesday: The impact of change

Three simultaneous morning meetings will depict how the future will affect the structure of the profession, education and personnel and the maintenance of standards. Speakers were listed in *The CPA,* July-August, page 2.

1st Statement on Responsibilities in Tax Practice to be issued

The committee on Federal taxation has issued the first of its series of statements "intended to constitute a body of opinion on what are good standards of tax practice, delineating the extent of a CPA's rosponsibility to his client, the public, the Government, and his profession." The October *Journal* will carry Statement No. 1, dealing with the "Signature of Preparer" and a committee description of the objectives and scope of the program.

The CPA, September 1964. Published monthly except July-August when bimonthly, for membership of the AICPA, Inc. Vol. 44, No. 8. Publication and editorial office: 666 Fifth Ave., New York, N. Y. 10019. Second-class postage paid at New York, N. Y.

Revenue Service specifies its stand on access to CPAs' work papers

Recently issued instructions to Revenue Agents clarify the position of the Internal Revenue Service regarding requests for access to accountants' work papers during the course of an agent's examination of a tax return.

While the new instructions recognize the Service's right of access to a CPA's work papers, it is emphasized that "examining officers will not request access to such work papers as a matter of standard examining procedure in every case." Development of the new instructions followed discussions with representatives of the committee on Federal taxation. Thomas J. Graves, general chairman of the committee, commended the IRS on the reasonable attitude taken in the instructions.

The Service's new instructions were issued in a spirit of co-operation and reflect an understanding of the problems of practitioners. Agents are instructed to seek access only to the portion of the work papers considered material and relevant to the examination. In determining materiality and relevance, agents are reminded that:

- Accountants' work papers should be used only as a collateral source of information.
- Access to work papers should be requested with discretion.
- The taxpayers' records are the primary source of information.

In situations where it becomes necessary for the Service to issue a summons to secure the work papers, agents are instructed to request and identify only those portions of the work papers pertinent to specific matters under consideration, unless because of circumstances peculiar to the particular case, all work papers are considered material and relevant.

Discussions with the Service were initiated by the Institute's representatives following reports of IRS agents' increased interest in seeking access to the complete set of audit work papers. In the discussions, the Institute's representatives recognized that Section 7602 of the Internal Revenue Code provides the Service with sweeping authority "to examine any books, papers, records, or other data which may be relevant or material . . ." to any inquiry into a tax liability of any person; also, they acknowledged that Section 7603 of the Code grants legal authority to the Service to compel production of certain work papers by court order enforcing a subpoena. On the other hand, AICPA representatives expressed concern about the adoption of any standard procedure which would include requests for accountants' work papers. They felt that there should be no insistence upon obtaining audit work papers, except where substantially all of the papers requested are or may be pertinent to the determination of specific points under examination, and where an accurate determination could not be made from the taxpayer's records and other information that may be available.

It was pointed out that while frequently CPAs (with the concurrence of their clients) *may be willing* to make their work papers available voluntarily, the Service *should not expect* that all CPAs would adopt the same attitude.

The Institute's representatives offered the following reasons in support of their views:

1. The CPA function and relationship with the client and third parties requires privacy, which is in the public interest. Widespread examinations of a CPA's work papers would tend to defeat this objective.

2. The conduct of the CPA's audit could be seriously affected if it could be expected that as a matter of course the work papers would be examined by the IRS. For example:

   a. It would curtail frank disclosure to CPAs by clients.

   b. It would reduce the CPA's ability to deal with some matters informally. There may be unnecessary tax inquiries since much of the material in work papers, not having been prepared for tax purposes, may be misleading from a tax viewpoint.

   c. It would add to the demands of audit work.

3. Audit working papers are property of the CPA, not of the client.

Business press carrying articles on accounting

The profession's new emphasis on precision public relations—getting information to groups particularly interested in accounting – is having results in the financial and trade press.

Take, for example, an article on long-term loans in the July issue of *Commercial Car Journal* (p. 122) which states:

"In the case of financial statements, you should include annual reports for perhaps the past four or five years. If you are a sizeable outfit asking for $100,000 or more, it's a good idea to have your annual audit done by a certified public accountant. This gives the bank an outside opinion of the financial position of your operation. It should be noted also that the services of a first-rate CPA firm go far beyond the audit. The counsel offered after the audit is often worth the cost of the audit itself.

"A CPA can help in preparing a cash-flow projection, too."

Report of the Special Committee on Opinions of the Accounting Principles Board

To the Council of the American Institute of CPAs

This Special Committee was appointed by President Heimbucher on May 21, 1964. A copy of his letter addressed to William W. Werntz, Chairman, is attached as Exhibit A.* In essence, the letter sets forth the Committee's work and objectives as follows:

1. Propose specific implementation as called for by the following resolution of Council at its May, 1964 meeting:

RESOLVED—That it is the sense of this Council that reports of members should disclose material departures from Opinions of the Accounting Principles Board, and that the President is hereby authorized to appoint a special committee to recommend to Council appropriate methods of implementing the substance of this resolution.

2. Review the entire matter of the status of Opinions of the Accounting Principles Board and the development of accounting principles and practices for reporting purposes. From this review develop and recommend to Council a general statement of philosophy, purpose, and aims in this area.

In its deliberations, the Committee has had the benefit of a considerable amount of material including letters from members. In addition, comments were received on a preliminary draft of this report that was exposed to various groups.

This report deals only with item 1 of the assignment. The Committee proposes that its conclusions and recommendations to implement the resolution be acted upon at the Fall 1964 meeting of Council. The matters in item 2, however, require further time and consideration. The Committee anticipates that it, or a succeeding committee, will be able to present recommendations on item 2 for consideration at the Spring 1965 meeting of Council.

In considering implementation of the resolution passed by Council at its 1964 Spring meeting, the Committee has reached the following conclusions and recommendations:

1. "Generally accepted accounting principles" are those principles which have substantial authoritative support.

2. Opinions of the Accounting Principles Board constitute "substantial authoritative support."

3. "Substantial authoritative support" can exist for accounting principles that differ from Opinions of the Accounting Principles Board.

4. No distinction should be made between the Bulletins issued by the former Committee on Accounting Procedure on matters of accounting principles and the Opinions of the Accounting Principles Board. Accordingly, references in this report to Opinions of the Accounting Principles Board also apply to the Accounting Research Bulletins.[1,2]

5. If an accounting principle that differs materially in its effect from one accepted in an Opinion of the Accounting Principles Board is applied in financial statements, the reporting member must decide whether the principle has substantial authoritative support and is applicable in the circumstances.

a. If he concludes that it does not, he would either qualify his opinion, disclaim an opinion, or give an adverse opinion as appropriate. Requirements for handling these situations in the reports of members are set forth in generally accepted auditing standards and in the Code of Professional Ethics and need no further implementation.

b. If he concludes that it does have substantial authoritative support:

(1) he would give an unqualified opinion and

(2) disclose the fact of departure from the Opinion in a separate paragraph in his report and, where practicable, its effects on the financial statements either in the report itself, or in a footnote referred to in the report.[3] Illustrative language for this purpose is as follows:

> The company's treatment of (describe) is at variance with Opinion No. __ of the Accounting Principles Board (Accounting Research Bulletin No. __ of the Committee on Accounting Procedure) of the American Institute of Certified Public Accountants. This Opinion (Bulletin) states that (describe the principle in question). If the Accounting Principles Board Opinion (Accounting Research Bulletin) had been followed, income for the year would have been increased (decreased) by $__ and the amount of retained earnings at (date) increased (decreased) by $__. In our opinion, the company's treatment has substantial authoritative support and is an acceptable practice.

* * * * *

> The company's treatment of (describe) is at variance with Opinion No. __ of the Accounting Principles Board (Accounting Research Bulletin No. __ of the Committee on Accounting Procedure) of the American Institute of Certified Public Accountants. This Opinion

*Not reproduced. See President Heimbucher's column, July-August *CPA,* pages 4-5.

[1] This is in accord with the following resolution of the Accounting Principles Board at its first meeting on September 11, 1959:

"The Accounting Principles Board has the authority, as did the predecessor committees, to review and revise any of these Bulletins [published by the predecessor committees] and it plans to take such action from time to time.

"Pending such action and in order to prevent any misunderstanding meanwhile as to the status of the existing accounting research and terminology bulletins, the Accounting Principles Board now makes public announcement that these bulletins should be considered as continuing in force with the same degree of authority as before."

[2] The Committee believes that the Terminology Bulletins are not within the purview of the Council's resolution nor of this report because they are not statements on accounting principles.

[3] In those cases in which it is not practicable to determine the approximate effect on the financial statements, this fact should be expressly stated.

(Bulletin) states that (describe the principle in question). If the Accounting Principles Board Opinion (Accounting Research Bulletin) had been followed, the effect would have been as set forth in footnote No. ___. In our opinion, the company's treatment has substantial authoritative support and is an acceptable practice.

6. Departures from Opinions of the Accounting Principles Board which have a material effect should be disclosed in reports for fiscal periods that begin:

a. After December 31, 1965, in the case of existing Bulletins and Opinions;

b. After the issue date of future Opinions unless a later effective date is specified in the Opinion.

7. The Accounting Principles Board review prior to December 31, 1965, all Bulletins of the Committee on Accounting Procedure and determine whether any of them should be revised or withdrawn.

8. The Accounting Principles Board include in each Opinion a notation that members should disclose a material departure therefrom.

9. The failure to disclose a material departure from an Accounting Principles Board Opinion is deemed to be substandard reporting. The Practice Review Committee should be instructed to give its attention to this area and to specifically report to Council the extent of deviations from these recommendations.

10. The Committee on Professional Ethics and the Institute's legal counsel have advised us that the present By-Laws and Code of Professional Ethics would not safely cover an infraction of the above recommendations. The question of whether the failure to disclose a departure from an Accounting Principles Board Opinion be made an infraction of the Code of Professional Ethics is so significant that it should be voted upon by the membership. We therefore recommend that the Committee on Professional Ethics propose such an amendment for submission to Council.

11. Council of the Institute formally adopt the conclusions and recommendations contained in this report.

The Committee anticipates that there will be few instances in which an accounting principle at variance with an Opinion of the Accounting Principles Board will continue to hold substantial authoritative support. The disclosure requirement will center attention on them. This attention should ultimately result either in discontinuance of the variant principle or further consideration of the Opinion by the Board.

Respectfully submitted,
William W. Werntz, *Chairman*
Albert J. Bows
Paul Grady
John R. Ring
J. S. Seidman
Maurice H. Stans
Glenn A. Welsch

October 1964

Comments and Recommendations on the Report of the Special Committee on Opinions of the Accounting Principles Board

By Paul Grady

I agree with the Committee report except paragraphs 5b(2) and 10.

The requirement to disclose not only the fact of departure from an APB Opinion, but also its effect on net income and financial position (as suggested in paragraph 5b(2)) in my opinion goes beyond the sense of the resolution adopted by Council. Inasmuch as it applies to a situation in which the company and the accountant agree that the principle used is generally accepted and applicable in the circumstances, this additional disclosure detracts from generally accepted accounting principles. It may even reflect unfavorably on the company in much the same way as a qualified opinion because it carries the implication that there is something wrong with the result obtained.

A professional accountant should not be required to apologize publicly for exercising his professional judgment, especially when the method he has approved is generally accepted. I recommend that disclosure of the effect on the financial statements be eliminated from paragraph 5b(2).

If Council believes that a member should be required to justify his approval of a generally accepted accounting principle not approved by the APB, the justification should be to his peers. Accordingly, paragraph 5b might be expanded to provide that the member should write a letter to the Practice Review Committee disclosing the following facts:

a. Describe the company's treatment which is at variance with an APB Opinion (identifying the Opinion).

b. Disclose the effect on financial statements of the variant treatment, as compared with the principle accepted in the Opinion of the APB, indicating the effect on income for the year and the accumulative effect on retained earning.

c. Describe the substantial authoritative support for the variant treatment.

Under this procedure the Practice Review Committee would express agreement or disagreement with the judgment exercised by the member and would prepare the general report to Council as recommended in paragraph 9 of the Special Committee's report.

The question of whether or not the Code of Professional Ethics should be involved in this matter should not be decided until the Institute has had some experience with the proposed implementation of the resolution. Until it becomes evident that the disclosure requirement cannot be successfully implemented using education and persuasion through the Practice Review Committee, any proposal to change the Code of Professional Ethics to make failure to disclose an act discreditable to the profession should be held in abeyance. I therefore recommend that the Council specifically affirm that the Code of Professional Ethics is not involved in this matter at the present time.

R & D expenditures: Defer? Capitalize? Write off? New project studies subject

A study on accounting for research and development expenditures has been recently undertaken under the supervision of Oscar S. Gellein, of Haskins & Sells, New York City.

Expenditures by businesses in the United States for research and development have increased substantially during the past twenty-five years, and have become quite important in the financial statements of companies in certain industries.

Many companies with regular research staffs engaged in continuing research activities charge research and development expenditures to income as they are incurred. Others defer such costs to the extent that they relate to specific projects and those costs that are not identified with special projects are charged to income as incurred. Still others, especially new companies developing new products, capitalize research and development expenditures and amortize them as the products are produced and sold.

Mr. Gellein's study will include an investigation of the several practices that are being followed. It will comprehend identification of the varying conditions in which research and development activities are conducted, giving consideration to the differences between companies which are in the early stage of the development of a product and those which are well established and are carrying out research, in part at least, to maintain a position in an industry.

It will consider the accounting for the development of a new product, the improvement of an existing product, and the development or improvement of equipment and production processes. The study will not be concerned with the accounting for expenditures for exploration of minerals, oils, and other natural resources.

A project advisory committee (see box, this page) has been appointed to assist the research supervisor and the director of accounting research with the project. The members of the committee have had extensive firsthand experience with the problem; they will review the plan for the study and will advise the research supervisor as to the conduct of the necessary research. They will also act as a sounding board for those making the study, and will review the study to advise the director of accounting research as to its suitability for publication.

After the study has been published and comments received, the Accounting Principles Board will evaluate the entire project and decide whether to issue an Opinion on the subject.

Reed K. Storey, director of accounting research, says that comments and suggestions on this project from members and other interested persons will be most welcome. They should be addressed to the Director of Accounting Research, American Institute of Certified Public Accountants, 666 Fifth Avenue, New York, N.Y. 10019.

Accounting for R & D Expenditures

Project Advisory Committee

John W. Queenan, Chairman	Haskins & Sells, New York City
Mortimer J. Fox, Jr.	Schering Corporation, Bloomfield, New Jersey
John W. Nicholson	Alexander Grant & Company, Chicago
Howard L. Letts	Radio Corporation of America, New York City
A. Russell Pippin	E. I. duPont deNemours, Inc., Wilmington, Delaware
Walter R. Staub	Lybrand, Ross Bros. & Montgomery, New York City
John Arch White	The University of Texas, Austin

University fund honors former President Hope

A Memorial Fund is being established for J. William Hope at the University of Bridgeport, Connecticut. Mr. Hope, a former president of the American Institute, was secretary of the Board of Trustees of the University from 1936 to 1962.

The sponsoring committee of the Memorial Fund has sent out letters to Mr. Hope's hundreds of friends and associates throughout the country telling them about the Fund. The committee has already received several thousand dollars in unsolicited gifts.

Depending on the scope of voluntary support for the Fund, it will either take the form of an endowed University professorship or a scholarship.

Mr. Hope died April 30. He was on the Institute's executive committee for seven terms, a vice president in 1948-49, and president in 1951-52.

Members of the Institute who wish to contribute should write to: Sponsoring Committee, J. William Hope Memorial Fund, University of Bridgeport, Bridgeport, Connecticut 06602.

CPAs: Leaders or Losers in ADP?

CPAs ARE involved in a revolution. It's the kind of revolution that occurs only once in several hundred years — but when one comes, it shakes things up beyond recognition.

The industrial revolution substituted machinery for manual labor. The computer revolution is substituting machines for the men who were operating the machinery. What's more, the revolution is not only replacing men on the production line, it is also replacing clerks and even the middle managers who make mathematical calculations, who classify and analyze factual data.

As every CPA knows, this revolution has had a heavy impact on accounting already, both directly and through changes in the economy as a whole. But it is possible that CPAs, as well as production or white-collar personnel, may find their careers overturned as the computer revolution works its way. Surprisingly, the revolution could have its most profound effects on CPAs who deal with medium-sized and small-sized businesses.

So far, EDP has meant big machines for big business, but now computers are accessible to all sizes of businesses. They are rapidly becoming available directly through banks, service companies and even manufacturers and wholesalers who can offer smaller companies a wealth of control information fast.

In the first place, manual preparation of the books, of trial balances, of financial statements and even of tax returns is fast declining. Computers may be able to do even this work faster and cheaper than people can. More importantly, machines can classify and analyze information which management must have to run a business efficiently — but which it is too costly to perform by manual methods. These machines can age receivables, analyze sales, report changes in inventory, compare operating ratios for various periods — and they can discharge such data on request in a matter of minutes. They make frequent and timely reports available at comparatively low cost to any business.

If CPAs do not provide such information services to clients, someone else will. If that happens, the clients may decide they have no further need for CPAs at all.

An increasing number of banks have been offering clerical, bookkeeping and accounting services through their own computer installations. These computers more than replace men; they keep working around the clock. To keep them working, computer owners will reach out beyond their own internal data processing jobs and start offering to perform payroll, billing and bookkeeping services for others in order to keep their tireless mathematical machines at work.

Already a few banks are aggressively advertising such services to the general public. One bank has formed an automated accounting division offering to supply bookkeeping services "on a professional basis." It advertises primarily to small- and medium-sized companies, offering not only to perform routine services but also to do special analyses of sales and profit margins, inventory controls, cost center distributions and similar management services.

This trend could put many banks on a collision course headed for direct competition with local CPA firms. Even the independent audit function might be affected.

Legislation has been introduced to limit banks' activities in this area. But this seems neither desirable nor likely to succeed.

Perhaps CPAs could arrange to utilize banks' and service bureaus' computers to serve their own clients. Hopefully, this would mean that CPAs would be absorbing most of the downtime on these computers, and banks and service bureaus in turn would be happy to refrain from soliciting the business of companies.

There is an inevitable attraction between computer owners with their unused capacity and the smaller businesses with their need for better management information at a lower cost. It is up to CPAs to provide the professional know-how which will link the needs of their clients with the facilities which are required to meet the needs. If CPAs do not do this, and soon, computer owners and smaller businesses may make such a union directly — to their own ultimate disadvantage and to the clear detriment of the accounting profession.

Insurance Trust Membership

The AICPA Insurance Trust will soon mail to members and firms represented in the Institute an invitation to begin or increase existing participation in the Trust on October 1, 1964, if they are eligible. These invitations follow a refund distribution to subscribers in July of more than $3 million, amounting to 56.4 per cent of contributions for insurance for the applicable policy year.

Florida Court rules: State can regulate public practice—but within limits

A state has the power to regulate the public practice of accountancy within that state, but that power may not be exercised in such a way as to make it virtually impossible for an out-of-state CPA to qualify for a reciprocal certificate.

That is the essence of the decision handed down by the Florida Supreme Court on July 29 (see JofA, Sept.64, pp.35-36, and pp.68-71).

State regulatory interest

The Court stated:

"... It is now well settled that a state may require a license and a reasonable fee from out-of-state concerns doing business within its borders, as well as conformance with provisions designed to insure their integrity in dealing with its citizens, even though such concerns are engaged in interstate commerce....

"And it is settled in this state, as well as in other jurisdictions, that a state has a legitimate interest in regulating a highly skilled and technical profession such as public accountancy. This being so, the standards of proficiency which must be met in order to be registered and to practice in this state [Florida] as a certified public accountant should, logically, be met by out-of-state persons or firms as well as by local persons and firms. To sustain the appellant's contention that out-of-state certified public accountants should be given *laissez-faire* to perform unlimited engagements as certified public accountants in this state without regard to our standards of proficiency, and completely independent of the Board and its licensing requirements, would not only be grossly unfair to our resident public accountants who are required to comply therewith, but would inevitably result in a lowering of such standards."

Reciprocity considered

In 1962 one of the managers of the Miami office of Price Waterhouse applied to the Florida Board of Accountancy for a reciprocal certificate to practice as a CPA in that state. One of the requirements for the issuance of such a reciprocal certificate is that the applicant "has been engaged in the practice of public accountancy in Florida as a full-time employee of a CPA . . . for a period of two years, and is a resident, having resided continuously in the state for a period of two years. . . ."

The Court held that it is proper to require out-of-state CPAs to obtain certificates from the Florida State Board in order to practice as CPAs in the state.

But the Court went on to say:

"It is one thing to say that out-of-state certified public accountants must comply with the certification requirements to practice as certified public accountants in this state; it is another to hedge the application for such certificates with such residence and clerkship requirements as to make it impossible for an out-of-state CPA to comply therewith.

"... If the examination and the standards of the state in which an out-of-state certified public accountant was originally certified are equivalent to those of this state, there would appear to be no valid reason for requiring, as a prerequisite to the issuance of a reciprocal certificate, that the applicant therefor meet the residence and clerkship requirements [of the statute]. Nor does it appear to be reasonably necessary, to accomplish the purpose of the Act, to require out-of-state certified public accountants who cannot comply with the reciprocity provisions of the Act and who desire to qualify, by examination, to practice in this state as CPAs, to meet the residence and clerkship requirements of the Act. . . ."

The Court therefore concluded and held "... that the appellants should be allowed to continue to engage in the practice of accountancy under temporary certificates to fulfill specific engagements until such time as they have a reasonable opportunity to qualify, under either the reciprocity or examination provisions of the statute — without regard to residence or clerkship requirements thereof — for registration in this state as CPAs."

The appellants, Price Waterhouse, had contended that they did not hold themselves out to the general public in Florida as a firm of Florida CPAs.

Accordingly, Price Waterhouse maintained that it should not be required to comply with the certification requirements.

The Court held that the appellants were, in fact, performing work as CPAs in Florida through employees residing and working full-time in the state, even though they obtained temporary certificates to fulfill specific engagements.

[Ed. Note: The Editorial in the September *Journal* notes:

"The particular case at issue has been remanded to a lower court with instructions to prepare a decree consistent with the Supreme Court decision. Though this has not yet been done, it seems clear that the decree must invalidate the existing requirement that to qualify for a reciprocal certificate in Florida an out-of-state CPA must have been 'engaged in the practice of public accountancy in Florida as a full-time employee of a certified public accountant, as defined in this chapter, for a period of two years. . . .' "]

Reed Storey succeeds Paul Grady in leading active research program

September 1 marked the second change in leadership of the accounting research division since that unit of the Institute was established in 1958. On that day Paul Grady retired from the Institute and Reed K. Storey assumed the post of director of research.

Mr. Storey, who moved up from the post of assistant director, will be leading an active operation. In recent months —

¶ The APB asked for a ballot draft of the Opinion on leases, requested a simplified pamphlet illustrating how to report the financial effects of price-level changes in financial statements, and has been considering a prospectus on materiality.

¶ Project advisory committees furthered their respective research projects by considering: a draft on accounting for the cost of *pension plans,* a draft on reporting of *income taxes,* a first draft of the *inventory of generally accepted accounting principles,* and the first draft on *intercorporate investments.*

¶ All members of the project advisory committee for *research and development expenditures* have accepted appointment; Herman W. Bevis will chair the advisory committee on *accounting for extractive industries,* and other members of the committee are being selected.

¶ Research work is in progress on *foreign operations* and *goodwill.*

Mr. Grady's term as director of research caps a career of outstanding service to the Institute, epitomized by his receiving the CPA gold medal in 1959 "for distinguished service to the accounting profession. . . ." In 1963 he agreed to come out of retirement to guide the research program, but on the condition that he serve only until a suitable successor could be found. He found that successor in his own assistant director, Reed Storey, whom he recommended for director of research.

Reed Storey brings to his new post experience both with a public accounting firm and in teaching accounting as an associate professor at the University of Washington. While at the University he did pioneering research under a special grant on the determination of accounting principles. He wrote up the results of this research in the most comprehensive monograph on the subject, entitled *The Search for Accounting Principles*; it was published by the Institute this year. Mr. Storey received his doctorate from the University of California at Berkeley in 1958 and was a member of the Phi Kappa Phi and Beta Gamma Sigma honorary societies.

While Mr. Grady technically has retired again, he continues to give the profession the benefit of his experience on accounting principles through service on the special committee on Opinions of the APB and in compiling the inventory of generally accepted accounting principles.

New PD series win acclaim; for the full PD course line-up . . .

Enthusiastic response by members last spring to two new professional development lecture series has brought these courses back for repeat performances this fall/winter.

One course, "Current Problems in Taxation," received the highest single registration of any course offered by the professional development program in its five and one-half year history. The other course, "Systems and Procedures Engagements," also "drew exceedingly well."

The fall/winter presentations of "Systems and Procedures Engagements" will be led by the man who helped develop it, Robert B. Nadel, Hertz & Herson, New York City. Assistant Commissioner of Inspections for the Internal Revenue Service, Vernon D. Acree, will be the featured speaker for "Problems in Taxation."

Both courses are described in detail in the professional development catalog which will be mailed to all members in mid-September.

For those who wish to plan ahead, the management services course, "Systems and Procedures," will be given in Milwaukee, Wis., on October 29-30; Memphis, Tenn., on November 5-6; and in Denver, Colo., on December 3-4.

"Current Problems in Taxation" has been scheduled for Detroit, October 22-23; Oklahoma City, Okla., November 16-17; and Jackson, Miss., December 7-8.

. . . see your catalog

Denver, Colo., Sept. 24-25 . . .
Omaha, Neb., Oct. 19-20 . . .
Atlanta, Ga., Oct. 22-23 . . .
Boston, Oct. 29-30 . . .
Fort Worth, Texas, Dec. 7-8 . . .

These are just a few of the places where and dates when you can attend the professional development clinics, conferences and workshops in fall/winter 1964-65.

The complete rundown of where, when and what is included in the sixteen-page second annual professional development catalog which will be mailed in

TAX COMMITTEE VIEWS NOW AVAILABLE AUTOMATICALLY TO AICPA MEMBERS

Members of the American Institute now have an opportunity to receive — automatically and immediately upon publication — all of the important materials currently being produced by the Institute's committee on federal taxation.

These materials include comments and recommendations on tax legislation which the committee submits to the taxwriting committees of Congress and to the Treasury Department. They also cover comments and recommendations on proposed Income Tax Regulations, suggestions made to the Internal Revenue Service on improvement of tax forms, and other administrative policies and procedures.

The quantity or frequency of publication of materials of this kind cannot be forecast. However, if this service had been in effect during 1963-64, subscribers would have received all of the representative materials listed on the back of this page. Moreover, the current year's service will be particularly timely because it will include consideration of the many new proposed regulations under the Revenue Acts of 1962 and 1964 which are yet to be issued by the IRS.

Members engaged in tax practice will find this new service particularly valuable because it will alert them to potential problem areas in the case of pending tax legislation. It will give them a clearer understanding of tax administration problems and what attempts are being made to solve them. And it should generally lead to a more sophisticated awareness of tax developments — both current and future.

If you would like to take advantage of this subscription service, please fill out and return the form which appears below.

ANNUAL SUBSCRIPTION FEE $7

SEE REVERSE SIDE FOR LIST OF REPRESENTATIVE MATERIALS

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
666 FIFTH AVENUE, NEW YORK, N. Y. 10019

Gentlemen: Please enter my subscription to your new service, *Tax Committee Comments & Recommendations,* for the period September 1964 — August 1965 at $7.00.

☐ **Payment is enclosed.** ☐ **Please send bill.**

MEMBER'S NAME ______________________________

FIRM ______________________________
(if part of mailing address)

ADDRESS ______________________________

CITY ______________ STATE __________ ZIP CODE __________

TAX COMMITTEE COMMENTS & RECOMMENDATIONS

TAX COMMITTEE COMMENTS & RECOMMENDATIONS

A NEW SUBSCRIPTION SERVICE

Representative Materials Issued by the American Institute's Committee on Federal Taxation During September 1963 — August 1964

Comments and recommendations on H. R. 8363, the Revenue Act of 1964.

Comments and recommendations on H. R. 8000, Interest Equalization Tax Act.

Comments and recommendations on H. R. 7301 regarding collapsible corporations.

Suggestions submitted to IRS for revision of major income tax forms.

Comments and recommendations on the Service's rulings publication policy.

Recommendations for liberalizing the Service's policy on extensions of time for filing individual income tax returns.

Recommendations requesting liberalization of Revenue Ruling 64-110 regarding affiliated corporations filing consolidated returns.

Comments on proposed regulations relating to (partial list) . . .

- Carryback and carryover of and over-all limitations on foreign tax credit.
- Limitation on acceleration on accrual of taxes.
- Minimum distributions by domestic corporations.
- Consolidated returns.
- Earnings and profits of controlled foreign corporations.
- Mutual savings banks and building loan associations.
- Certain stock options.
- Electing small business corporations.
- Earned income from sources without the United States.
- Self-Employed Individuals Tax Retirement Act of 1962.

PLEASE USE THE FORM ON THE REVERSE SIDE TO SUBSCRIBE TO THIS NEW SERVICE

mid-September to all members.

For example, are you interested in acquiring a sound basic knowledge of ADP? A two-day course on this subject will be given in five cities scattered neatly from coast to coast. The pertinent facts are on page 4 in the catalog.

As the catalog title says, this is "your key to continued success." Watch for it.

Retirement Plans data to be sent to members

Institute members who are thought to be eligible for favorable tax treatment under the Self-Employed Individuals Tax Retirement Act ("Keogh Law"), received information about AICPA Retirement Plans this summer.

As the Plans handbook notes, "For those in public accounting practice to attract and hold the personnel needed, a program for the orderly accumulation of retirement funds for employees is increasingly important. The AICPA Retirement Plans offer members a modern way of fulfilling this need while including themselves for a share in the benefits."

Members who have sent census data to the Trustee are scheduled to receive a personal planning book and descriptive material designed to assist them in selecting the most favorable basis of participation. Computations and illustrations based on each firm's or sole practitioner's data are being provided.

The Retirement Plans information was sent to firms identified with the Institute and sole practitioners except for members in the states of Texas, Wyoming, Colorado and North Carolina. In these four states local law may bar the Institute from offering the Retirement Plans to members. A special study is being made for each state in hopes that members in them may be invited to participate.

AICPA ethics committee issues opinion on independence, help wanted ads

What can a member say in his reports on financial statements when he is considered lacking in independence? This and other important questions were considered by the Institute's committee on professional ethics and seven of its subcommittees at a two-day meeting in Chicago.

A formal interpretive opinion on independence was approved by the committee, along with an addendum to an existing opinion on advertising. The committee also:

- Proposed a new rule of professional ethics.
- Considered numerous inquiries and complaints.
- Recommended disciplinary action against five members.

Independence. The committee approved for publication in this issue of *The CPA* an opinion on the language of an accountant's report on financial statements when he is considered not independent under Rule 1.01. (See box below.) This opinion grew out of a joint meeting with the committee on auditing procedure, and it has also been considered by the executive committee.

Another subject considered by the ethics committee was the question of an auditor's independence when a staff member of his firm performs such duties as check signing, voucher approval, hiring personnel, and other management functions for a client. (See *The CPA*, July-August64, p.16.)

Agreement in principle was reached on the question of an accounting firm's independence when a retired partner of the firm is a stockholder, officer, director or key employee of a client on whose financial statements the firm expresses an opinion. This will be covered in a future numbered opinion.

The committee clarified the applicability of Rule 1.01 to non-opinion work, such as write-up services and tax practice. (See *The CPA*, July-August64, p.16.) The committee also decided to

Opinion No. 15: "Disclaimer of Auditor Lacking Independence"

Inquiries have been received as to the language of an accountant's report when he is considered to be not independent under Rule 1.01. In such circumstances he is precluded from expressing an opinion on financial statements. Instead he must disclaim an opinion and indicate clearly his reasons therefor. Moreover, he should not state that he has made an examination in accordance with generally accepted auditing standards*; nor, in the opinion of the committee on professional ethics, should he describe the auditing procedures he has followed.

With the concurrence of the committee on auditing procedure, the ethics committee suggests the following disclaimer:

"Inasmuch as we have a direct financial interest in XYZ Company [or other reason] and therefore are not considered independent, our examination of the accompanying financial statements was not conducted in accordance with generally accepted auditing standards. Accordingly, we are not in a position to and do not express an opinion on these financial statements."

*See Statements on Auditing Procedure No. 33, Chapter 3.

THE OCTOBER 1964 CPA

The Accounting Profession in a Changing World

Miami meetings resolve current problems, then portray the future for CPAs

Council settles APB disclosure question

This issue of *The CPA* carries good news – and a lot of it – for members. Council achieved *resolution* of many of the issues concerning the Accounting Principles Board and reached *agreement* on how to proceed toward solving the rest. As a member, you should already have received a "special bulletin" providing you with the text of this ten-point Council resolution. For the story of how Council arrived at this solution, and what some representative members said about it, turn to page 3.

. . . and then reviews current events in the profession

The Institute's senior committees reported to Council on their principal activities during the last six months and their major plans for the next six months. They revealed progress on such items as research projects, forthcoming statements on professional conduct in taxes and management services, and recommendations on pension legislation. In specially condensed form for *The CPA*, these reports give you a roundup view of what's happening in all phases of the profession (page 9). For a special report on the progress in professional development, turn to page 22.

Where do we want to be in ten years?

New President Thomas D. Flynn answered this question in keynoting the annual meeting which concentrated on the profession's long-range objectives. He predicted both great promise and considerable problems for CPAs in a speech which has been condensed for *CPA* readers on page 12.

What will you be doing in 1975?

You may be a specialist in taxes only, or in one phase of management services. Your whole firm may specialize in one phase of professional accounting. Or, if you are a sole practitioner, you may act more like a general practitioner in medicine—diagnosing clients' needs and referring them, when necessary, to CPA specialists for particular kinds of engagements. The specialists could be associates of yours in a group of firms with which you have affiliated. These possibilities are only a sample of the many conjectures (starting on page 6) about the shape of the profession circa 1975.

New look in AICPA financial statements

The AICPA financial statements on page 16 look different this year. The presentation has been condensed and refashioned to conform more to current corporate practice. More information will be furnished to members on request. As a professional accountant, you may also find interesting an explanation by Controller George Taylor of how the Institute's budget system works (page 15).

The CPA, October 1964. Published monthly, except July-August when bimonthly, for membership of the AICPA, Inc. Vol. 44, No. 9. Publication and editorial office: 666 Fifth Ave., New York, N. Y. 10019. Second-class postage paid at New York, N. Y.

FROM THE
EXECUTIVE DIRECTOR
JOHN L. CAREY

"How can he expect to compete?"

THE FUTURE of the CPA profession was the theme of the Institute's annual meeting early in October. Speaker after speaker emphasized the fact that fundamental changes are taking place in the American economy to which CPAs must adapt if they are to survive.

One change of major importance is the computer revolution, some of the implications of which were discussed in this column last month.

Closely related is the rapidly growing demand by management—of small businesses as well as large—for more and better information as a basis for planning, control and making decisions. There is a good deal of evidence that businessmen expect help from their CPAs in meeting this need—but are frequently disappointed. As time goes on, if such disappointments are too frequent, management will look elsewhere for the help it needs, and there will be someone eager to provide it, even if that someone is not so well qualified as a CPA.

The larger CPA firms are keenly aware of these trends, and for years have been preparing themselves to meet broadening demands for what have come to be known as "management services."

Many smaller firms, however, seem oblivious to what is happening. A recent survey of a sample of local firms showed that more than half had no partner or staff assistant who specialized in management services. More than half would not be prepared to give clients help in some of the more common areas which larger firms already regard as a regular part of their practice. Some local firms offer no management services whatever—not even budgeting and cost accounting—apparently confining themselves to write-up work, auditing and taxes. This may not be enough to sustain a practice ten or twenty years from now.

The concepts and techniques underlying managerial planning, control and decision-making are still in an early stage of development. But every year more knowledge and sophistication are acquired by those who are paying attention to this promising field.

Last year the Institute began publication of a new magazine, *Management Services,* designed to keep members abreast of the latest thought and techniques in the area. Only slightly less than seven thousand members have subscribed, although more than eight thousand subscriptions have come from industrial accountants, management consultants and other nonmembers. Many CPAs have complained that the magazine does not deal with problems of the local practitioner, that it is too technical and too theoretical. But if the local practitioner does not keep up with what is going on at the most advanced levels of his profession, how can he expect to compete with those who do?

Last year the Institute published a 400-page *Management Services Handbook,* specially designed to bring the local practitioner up to date in the most common areas of the CPA's practice in this field. Although there are 12,500 CPA firms represented in the Institute's membership of 50,000 CPAs, only 5,481 copies of this book have been purchased.

For several years a series of Management Services bulletins has been published. The average sale is 10,000.

Professional development courses in budgeting, automatic data processing, financing a small business, and related subjects are being made available in various parts of the country. Registrations run only in hundreds, not in thousands.

If it is a sound prediction that the future will belong to those CPAs who offer not only auditing and tax services, but also help their clients to run their businesses better, then it appears that many CPAs are not staking out a claim to their share of the future.

State members can join AICPA pension programs

Practitioners or firms represented in state societies now may be able to join AICPA Retirement Plans, regardless of whether or not they are or have any partners in the Institute.

In accordance with a recent decision of the Institute's executive committee, it is expected that state societies applying for extension of eligibility for the retirement program to their members will be approved by the retirement committee—unless there is a special legal problem arising from a particular state's laws or some other controlling situation. Later on, the state societies will be invited to join with the Institute in this development of the Plans.

Sole practitioners or firms who are eligible through approved state societies may participate on the same basis as those which are identified with the Institute; that is, the sole practitioner or at least one of the partners in a firm must belong to the state society.

AICPA Retirement Plans offer CPAs a way to gain the tax benefits established in the Self-Employed Individuals Tax Retirement Act of 1962 (Keogh Law).

Council debate on APB disclosure issue results in a unanimous recommendation

Council members knew that they were about to take up one of the most important issues — and one of the most troubling — ever to face the profession as they walked into the meeting hall in Miami on Friday, October 2.

The issue — whether and how reports of members should disclose any departures from Opinions of the Accounting Principles Board — had generated three days of earnest, sometimes heated debate at the spring meeting of Council. That meeting resolved that members *should disclose* any such departures in their reports, but had left it up to a special committee appointed by President Clifford V. Heimbucher to work out the many particulars for implementing this recommendation.

Dissent

The special committee, meeting several times over the summer, worked out a report which covered the many particular questions with regard to implementation. However, one member of the committee, Paul Grady, dissented from two features of this report. The Grady dissent, while endorsing the greater part of the report of the special committee, differed from it on two important points: (1) *Where* should a member disclose the fact of departure from an Opinion of the Accounting Principles Board, if he believes the accounting principle that was followed has substantial authoritative support; (2) Whether Council should consider proposing the changes recommended by the special committee as an amendment to the Code of Professional Ethics. (A copy of the report and the dissent was printed for members as a special insert in the September *CPA*.)

Discussion on the floor of Council showed considerable support for the Grady viewpoint; on the other hand, there was some sentiment for a stronger statement than that recommended by the special committee. It was in this context that Thomas D. Flynn of New York, soon to be elected president of the Institute, introduced an amendment covering these two points — an amendment which he described as "offering a solution, not a compromise." Essentially, his amendment would permit disclosure of the *fact* — and where practicable, the *effect* — of a departure from a principle espoused in an APB Opinion to be noted *either* in the auditor's report *or* in a footnote to the financial statements. His second amendment proposed to defer consideration of whether there should be an amendment to the Code of Professional Ethics until such time as the special committee had completed the second part of its assignment, namely to:

> . . . review the entire matter of the status of Opinions of the Accounting Principles Board and the development of accounting principles and practices for reporting purposes. From this, review development and recommend to Council a general statement of philosophy, purpose, and aims in this area.

Discussion

Spokesmen who had stood on different sides of the issue rose to endorse the Flynn proposal. One who had urged more firm underscoring of the authority of the Accounting Principles Board's Opinions spoke of the amendments in this fashion: "I do not consider this a compromise. This is not a question of *whether* disclosure should be made, but of *the manner* in which it should be made. This approach may even be preferable because it may help to give the client a feeling of obligation to disclose an important fact such as using a different practice from that endorsed in an APB Opinion.

"On the question of amendment to the Code, I am not impressed with the necessity of doing anything now. I am sure that the profession will follow historical precedent if the recommendations of the report as amended are sound. If they are sound and they do prove convincing, I am sure that their ultimate adoption into the Code will be agreed upon by all CPAs."

Agreement

A spokesman who had stood on the other side of the issue and who had favored a slower approach, then rose and urged adoption of the report with its proposed amendments. He conceded himself "not wildly enthusiastic," but noted that the amended report provided a basis for moving forward. He particularly expressed approval of the feature which would set the effective date for the recommendation after December 31, 1965. "This," he said, "gives us time to explain, time to educate, and gives the APB time to reconsider its positions if it feels this is necessary. Further, I expect very, very few reports of members will ever involve this issue."

After more discussion, much of it indicating a wide assent from members of all persuasions on the issue, Council voted on the amendments. The amendment concerning disclosure was passed — 156 for to 7 against. The vote regarding deferral of the ethics question was even more favorable: unanimous.

Then Council voted on the whole report with these two recently adopted amendments. The vote in favor: unanimous. Council burst into spontaneous applause for this resolution of one of the most fundamental questions which has ever faced the profession.

In response to a member's question, President Heimbucher gave this eloquently simple description of what the recommendation means: "It is," he said, "a statement by Council of what ought to be accepted practice by members. In a historical sense it has the same status as Bulletin 23 before it was adopted by members as part of the Code of Professional Ethics."

Significance

Members reading this account should already have received by first-class mail an authorized final copy of the recommendation as voted by Council. However, some further account of the discussion on Council floor may help clarify the significance of the recommendation and particularly of the amendments to it. Past President J. S. Seidman (who chaired the special committee during the recent illness of the regular chairman, William W. Werntz) made comments to this effect about the disclosure amendment: Having disclosure of any departure in a footnote may be a preferable approach. Sophisticated readers of financial statements frequently feel that what is said above the accountant's signature is not so significant. They do recognize that there's gold in those footnotes. A further benefit may be a reduction of pressure on the APB to hold back on issuance of Opinions in controversial areas — because the amendment would offer members an alternative treatment if they agreed with the use of some other accounting principle having substantial authoritative support.

Another past president applauded the adoption of the amended special report because he felt it would permit the profession to focus its interest now on the criteria employed in the selection of accounting principles. He said: "We should study and determine where different accounting principles are appropriate because they reflect the differences in business methods, and we should weed out their employment where they are merely arbitrary."

One former opponent of the recommendation, after commending Mr. Flynn for his statesmanship, expressed the hope that APB actions in the future would be such that there would be no need for the machinery established by Council. Another former opponent seemed to voice the feelings of Council, saying: "I hope all members of the Institute will support this. It is the support of members which moves us along."

. . . in other actions Council:

▶ Approved a budget calling for expenditures of $4,438,870 — an increase of approximately $442,000 over budget for 1963-64. This budget figure for 1964-65 would anticipate a transfer to income retained for working capital of $45,050. Chief new projects provided for in these figures are: the new recruiting film, a conference on state legislation, a series of seminars on long-range objectives, and the fellowship program giving grants-in-aid for research projects to teachers and Ph.D. candidates in accounting.

▶ Received with regret the resignations of Alvin R. Jennings, Thomas G. Higgins, and Carman G. Blough from the Accounting Principles Board and, to complete their terms, elected Clifford V. Heimbucher (as chairman, 1 year) and Frank T. Weston (1 year), and Philip L. Defliese (2 years).

▶ Endorsed appointment of a committee to promote improvements in the Self-Employed Individuals Tax Retirement Act of 1962 (Keogh Law).

▶ Learned that the National Society of Public Accountants has adopted a policy statement advocating the licensing and regulation of all persons offering services to the public in the broad field of accounting, but acknowledging that the audit function should ultimately be reserved to CPAs.

New auditing projects reported to Council

Two proposed new statements on auditing procedure and an article pertaining to published financial reports were considered by the AICPA committee on auditing procedure when it met in New York on September 14-16.

One of the statements, "Evidential Matter for Long-Term Investments," is tentatively scheduled for exposure after the group's next meeting in December. The objectives of this statement are twofold: (1) to clarify the application of the third standard of field work as it pertains to the sufficiency and competence of evidential matter for long-term investments, and (2) to provide suggestions as to the type of reports to be issued by the independent auditor when he has not obtained sufficient competent evidential matter on long-term investments.

The other statement, "Letters to Underwriters," is also nearing the exposure stage.

At the meeting, the auditing procedure committee commented on an item to be published in the November issue of *The Journal* (p.89) written by Irving Richardson, a committee member and a general partner in the Chicago office of Alexander Grant & Company. Among other issues, the article deals with the concern of independent auditors for information presented in portions of annual reports other than the audited financial statements section.

President Heimbucher's valedictory: a year of progress, a promising future

President Clifford V. Heimbucher completed his year as president of the American Institute with a speech urging CPAs to look ahead to an exciting future — and look back on a year filled with considerable achievement.

"This is our century," he told members at the annual meeting. Inaugurating the "long-range objectives year for the accounting profession," Mr. Heimbucher said that it is becoming increasingly clear that the future stature of the accounting profession is virtually unlimited; a ceiling can be imposed only by the profession itself.

Mr. Heimbucher's speech started the annual meeting discussion devoted to consideration of the accounting profession's goals for 1975 and what measures it should take to attain them. He announced that the several years' deliberation by the committee on long-range objectives, a committee on which he served for several years, would become available to the whole profession in a book by Executive Director John L. Carey scheduled for publication in a few months. Mr. Heimbucher also indicated that the concern with the future of the accounting profession is world-wide in scope. "The New Frontiers for Accounting" will be the theme of the Ninth International Congress of Accountants to be held in Paris in 1967, he said.

Question of principles

In reviewing the achievements during the year in which he was president, Mr. Heimbucher said, "The single most important matter engaging the attention of the profession during the past year has been the discussion concerning the status of Opinions of the APB. This thorough deliberation culminated in the unanimous adoption by Council of a requirement for disclosure of departures from APB Opinions." (See the story on page 3 of this issue and the November *Journal,* pages 11, 12.)

"We are better prepared than ever to move ahead toward our main objective: to eliminate the use of alternative accounting principles not justified by differing circumstances.

"This action of Council, which, I repeat, was voted unanimously, received the most painstaking thought and extensive discussion in order to reach a conclusion which is practicable but which will not force accounting principles into a strait jacket or lead to a dictatorial procedure.

"Although the profession recognizes that it has a primary responsibility to be a leader in accounting thought, we realize full well that the problem is not ours alone.

"I must decry public statements quoted in the newspapers during the past few days. They have created the impression that nothing is being done to improve financial reporting. They constitute blanket indictments of our profession, its leaders, corporate management, the SEC, the securities exchanges, and the financial analysts. They claim that we have failed to accept or discharge our responsibilities to investors for sound accounting principles.

"Investor confidence in financial statements is justified by the fact that by the thousands they have stood the tests of usefulness and reliability over long periods of time and are being constantly improved."

Progress on problems

"Many accounting problems remain to be solved. These problems will be solved by co-operative democratic effort carried on in an atmosphere of mutual respect and trust.

"The accounting profession will not be condemned for failing to solve all its problems at once; it will risk condemnation only if it ceases to try.

"Two steps seem necessary. First, clarify the profession's position, its objectives, and its aims in each of the problem areas — accounting principles, disclosure, comparability, materiality, responsibilities, and intelligibility.

"Second, do all that we can to communicate the results of such clarification to investors, analysts, the financial press, and others interested."

AICPA Officers and Other Elected Members of the Executive Committee 1964-65

Thomas D. Flynn, New York City, president and chairman of the executive committee

Horace G. Barden, Chicago, vice president

Maurice J. Dahlem, Los Angeles, vice president

Bernard B. Isaacson, Wilmington, Del., vice president

John R. Ring, Miami, vice president

David F. Linowes, New York City, treasurer

Malcolm M. Devore, New York City

Clifford V. Heimbucher, San Francisco

Samuel A. Sakol, Chicago

Walter R. Staub, New York City

Robert M. Trueblood, Chicago

James VanderLaan, Denver, Colo.

W. Charles Woodard, Fort Worth, Texas

1964 meetings foreshadow the shape of the profession in 1975

Where do we want to be ten, twenty, thirty years from now? What do we do to get there?

These questions keynoted the technical sessions at the Institute's annual meeting – and were also stressed in the acceptance speech by the AICPA's new president, Thomas D. Flynn, as he assumed leadership of the Institute for what will be the accounting profession's "long-range objectives year."

The big picture: promise and peril

The meeting was devoted to consideration of the profession's goals for 1975 and beyond. Here is what the future may hold for CPAs as revealed in the annual meeting technical sessions, and what the Institute and the state societies hope will stimulate membership discussion.

President Flynn stated "We are in the early stages of a scientific and technological revolution of tremendous magnitude."

Speakers at the first session sketched the broad outlines of this revolution. Both promise and peril were held out to this audience of CPAs.

One speaker predicted continuing domestic prosperity building up to a trillion dollar economy in 1975. This economy, he suggested, would require an even greater increase in the number of professional accountants.

But another distinguished analyst presented a more mixed picture of the future, one in which computers would so thoroughly outdate existing routines and mechanical aids that even CPAs might find themselves in danger of unemployment by automation.

The shadow of the computer loomed over almost all these projections of the future. For instance, speakers traced a probable trend back to centralization of management and facilities due to the dependence on centrally located computers and other automatic control mechanisms. Where the computer goes, capital and management will follow. The speakers stressed that computers, by freeing managerial brains from mechanical or routine duties, would also induce more rapid and diverse changes in organizational structures.

Both of these trends indicate the tremendous demand management will have for reliable and imaginative professional guidance, a demand which would seem to call for a very high caliber of CPA. But the speakers also warned that if the profession does not develop enough top-caliber CPAs – then management will turn elsewhere for such guidance.

Fine focus: CPAs' specialties

William L. Cary, recently retired chairman of the SEC, envisioned an expansion of the CPA's audit functions, perhaps in such areas as attesting to compliance with government regulations. Mr. Cary expressed doubt that complete uniformity in accounting principles could or should be achieved. He also suggested that the SEC was unlikely to involve itself in the determination of accounting principles. However, he did indicate that the financial community would benefit from reports which indicated the effects of using alternative treatments which have substantial authoritative support. (See story, pages 3, 4 for the account of Council action in this area.)

The session went on to ask: What will the auditor be, come 1975? "A professional measurer" could well be the answer. This service might extend to almost any area of financial or managerial performance – and could include any area where high standards of professional rectitude and a high level of competence in measuring nonphysical phenomena are paramount. Perhaps the CPA will attest to the level of performance of a government agency, or to the true costs at issue in a labor-management negotiation. He might even evaluate the quality of management's performance of its duties.

Tax practice

Most of the participants in this session foresaw opportunities for further substantial growth but emphasized that more and more a specialist would be required to assure clients of comprehensive and competent tax practice. The session traced the major evolution of the tax law away from one presented in terms of *general principles* toward one replete with *specific detail.* As AICPA Federal tax committee chairman Thomas J. Graves told the CPAs in attendance, "It has become increasingly difficult to serve a client well by providing answers to isolated questions."

Management services

The need for management services can become as broad as business itself. One speaker at this session stated that business entities must be viewed as a whole —not as a set of figures by CPAs.

The opportunities were almost taken for granted at this session. The real concern revolved around questions of how the profession should meet this demand, and how ethical discipline should be applied in management services.

Can CPAs become scientists or technicians in the wide varieties of MS disciplines – or should scientists become CPAs?

Or should CPAs merely have the capacity to judge the quality of MS specialists and assume the role of diagnosticians who recommend to their clients the specialists needed for particular problems?

The medical analogy seemed

strikingly appropriate in consideration of many of these questions. Perhaps the small practitioner should take the role of the general practitioner who translates management needs to the specialists, probably through some sort of referral approach. He would offer knowledge of and access to specialists on the one hand and closeness to and knowledge of his client's business on the other.

The greatest threat to the future of the small practitioner may come from the outside where agencies such as banks, and other possessors of computers offer to provide write-up services to the small practitioner's traditional clients. The real significance of this threat may lie in its drying up the sources of write-up business which have helped sustain many a small practitioner when he first hung out his shingle.

Education

Richard S. Claire, a member of the Common Body of Knowledge Commission, suggested that, in addition to the CPA examination, two other examinations be introduced — one which would qualify a practitioner as a tax accountant, and another which would qualify him as a management services accountant.

Mr. Claire proposed that the American Institute give the examinations in these latter two fields and also be responsible for awarding certificates in these areas.

A simpler code

AICPA Vice President John R. Ring, former chairman of the committee on professional ethics, said he could envision a Code so large and complex that it would be almost unworkable and fraught with inconsistencies in interpretation — if the present trend toward expanding the Code continues.

Steps should be taken, Mr. Ring said, to develop "an ethical Code which is easily understood and readily enforced, and a body of professional literature which will provide guidance on specific questions."

How will this reshape the profession?

AICPA Treasurer David Linowes, chairing one of the Wednesday programs, described the meeting as an accountant's World's Fair. He saw each session as "a pavilion displaying what we are today, and, at the same time, projecting what we will be like in the future."

Here's what the projection looked like inside "the structure of the profession" pavilion:

- CPA firms may specialize in one phase of work such as taxes, or even in one or two types of management services.
- Small firms may all follow the evolution, already begun in some groups, toward close association in a network of firms able to call on each other's particular specialties.
- Management of firms themselves may become such a specialty that an expert CPA firm administrator may evolve, perhaps along the lines of medicine's experts in hospital administration.

Research

". . . Probably more research than we have ever thought could be necessary is the key to maintaining standards in the new world that is breaking upon us. Research may well be the key to our survival as an essential part of our social and economic system," Richard Lytle told members at the convention.

Mr. Lytle is director of the Institute's technical services division, but he emphasized that he was speaking "as an individual."

"There are enough problems to go around, and it is important that reasonable efforts be made to attack as many of them as possible," he said. "There is no substitute for personal research to enable the individual accountant to keep his skills sharp in relation to current and future needs.

"It is quite possible, in view of the depth of technological, social, and economic changes taking place, and the rapidity with which they are coming, that many of us are at the crossroads so far as our future in the accounting profession is concerned," Mr. Lytle concluded.

A view of the potential

Past President J. S. Seidman looked into the future and dazzled his audience with his view of the potential. He saw *sections* of the profession (such as a tax section) as an inevitable development — and as the only way to provide properly qualified specialists. He said this would call for *special accreditation* by the Institute, as specialization and continuing education developed different classes of CPAs especially prepared to perform particular services for clients. And particular distinction in these specialties should be recognized by election to various *academies in accounting*.

Accounting in all phases, and not just in professional accounting, may need a unified and continually communicating superorganization — perhaps a joint accounting council — which will coordinate needs in education, recruitment, and relations with the government.

Uniform requirements

William Hutchison of Oregon, chairman of the AICPA committee on state legislation, suggested that the present diversity in state accountancy laws and the barriers to interstate and international practice could stunt the growth of the accounting profession.

Mr. Hutchison also pointed out that only in the areas of third party reliance are the services of CPAs endowed with sufficient public interest to warrant statutory interest. He suggested that in the future the CPA's attest function would be extended beyond opinions on financial statements to other communications of economic and financial data, such as the validity of sampling techniques used in public opinion polls, the credibility of data presented in labor-management disputes, certification to business planning, and management audits.

The public eye

After the last technical session, members heard the Institute's public relations counsel Osgood Nichols advise CPAs that whatever their future would bring, it was more likely to appear in a goldfish bowl than in a private crystal ball. He cautioned that this encounter with the public would not be completely pleasant, but offered three pointers on how CPAs should go through "the wringer of a public accounting." He said:

1. "Listen to your critics. They are trying to kick you out of the past. Even the most mulish of them is likely to be more than half right.
2. "Don't dismiss the visionaries. They are trying to lead you into the future. They made lots of good sense at this meeting in Miami. Go home and turn it into practical use.
3. "Most important of all, tune in on the public's expectations and meet them more than half way. Though your income comes from your clients, your charter comes from the public. As former SEC Chairman William Cary said, 'the forces at work in society are making management more dependent on you than you are on management.'"

But contemplating the future—bright, cloudy, or uncertain — didn't take up all the time of members at the meeting. The Miami weather was balmy, the seashore inviting, and the social program delightful.

Profession honors achievements of . . .

. . . distinguished leaders

The lifetime professional contributions of two CPAs were recognized with awards of the CPA Gold Medal at the annual meeting.

Andrew Barr, chief accountant of the Securities and Exchange Commission, was honored for "the development and maintenance of sound standards of financial reporting" throughout his career of over 25 years with the SEC. In making the award, Percival F. Brundage, an AICPA past president and chairman of the awards committee, expressed appreciation of Mr. Barr's "clear and fearless expression of the need for higher standards."

In an informal response, Mr. Barr accepted the award as "recognition of the influence of the SEC and its accounting staff." He then expressed his opinion that "the accounting profession establishes its standards well in advance of legal requirements — which makes legislation unnecessary in this area."

Thomas W. Leland, a major figure in accounting education and the profession's organizations, was awarded the CPA Gold Medal posthumously. His widow accepted the award for her husband, who died while attending the AICPA annual meeting last year.

Mr. Brundage mentioned some of the significant posts which Mr. Leland had held in his career—head of the Division of Business Administration at A&M College of Texas, educational director of the American Institute, secretary of the Association of CPA Examiners, secretary-treasurer of the Southern States Conference of CPAs, president of the Texas Society of CPAs.

Mr. Brundage commented that "it was characteristic that this life of distinguished service ended while he was attending a professional meeting."

. . . bright young men

The stories of this year's Elijah Watt Sells award winners show what kind of promising young men are coming up in the profession.

Robert L. Carleton received the gold medal for scoring highest of all the 15,600 candidates in the November 1963 CPA examination. A summa cum laude graduate of the University of Denver, he was president of both the Beta Alpha Psi and Beta Gamma Sigma honorary fraternities. Mr. Carleton worked for a year with a large firm, then joined the local Denver firm of Kring and Tietze, in which he is a partner.

Leonard Leon Ray, who received the silver medal for scoring second highest in the November examination, is a partner in the Memphis, Tennessee, firm of George B. Jones & Co. Mr. Ray "commutes" to his widespread clientele via his own plane.

John R. Jordan, Jr., awarded the gold medal for scoring highest among the 14,173 candidates taking the May 1964 examination, is the son of a retired partner of Price Waterhouse & Co., Houston, Texas. He is now on the Dallas staff of this firm. A Phi Beta Kappa graduate of The University of Texas, he was a Baker Scholar and was graduated with "high distinction" from the Harvard Graduate School of Business Administration with an M.B.A. The *Texas CPA* recently published an article by Mr. Jordan entitled "Why I Chose Public Accounting as a Career."

Irwin R. Shechtman, winner of the silver medal for scoring second highest on the May examination, is one of the youngest men ever to win the award. He took the examination at age 21, shortly before graduating with honors from the University of Illinois, Mr. Shechtman is now a student at the Harvard Law School.

Committees report to Council: What's happened—what's planned

★ **APB report** The Accounting Principles Board has taken several major actions since its last report to Council:

- The Board approved, with one dissent, Opinion No. 5, "Reporting on Leases in Financial Statements of Lessee." The Opinion was mailed to all members last month.
- The Board began consideration of Accounting Research Study No. 6, "Reporting the Financial Effects of Price-Level Changes."
- The director of accounting research submitted a letter in the Board's name to the Federal Power Commission recommending that Proposed Rule-Making Docket No. R-264 be reconsidered. The proposal would make deferred tax accounting unacceptable for all public utilities reporting to the FPC.

Accounting research Several research studies are slated for early publication. A project advisory committee reviewed the draft of "The Inventory of Generally Accepted Accounting Principles." Its consensus was that the inventory should be revised in certain respects and published as an accounting research study. Publication is expected late this year.

"Accounting for the Cost of Pension Plans" is undergoing minor revisions. The project advisory committee expects the study to be published early next year.

"Reporting of Income Taxes in Corporate Financial Statements" should be published in 1965.

Tentatively scheduled for publication in 1965—"Accounting for Intercorporate Investments" and "Accounting for Foreign Operations."

In the early stages of development are the studies—"Accounting for Research and Development Expenditures of Industrial Companies," "Accounting for Goodwill" and "Accounting for Extractive Industries."

Still in the exploratory stage—proposed studies on accounting for income and earned surplus and on the concept of materiality.

★ **New tax series** The committee on Federal taxation reported that the first statement in a new series, Statements on Responsibilities in Tax Practice, was sent to all members last month. Statement No. 1 deals with the CPA's responsibility for signing a tax return he has prepared. Statement No. 2, which discusses whether a CPA may voluntarily assume the preparer's responsibility and sign a return as preparer in a situation in which he reviews a return prepared by the taxpayer or another person, is nearing the exposure stage. Other proposed statements, in various stages of development, consider the effect of prior years' examinations on the preparation of a current year's return and the effect of omissions and errors in prior years on a current return.

Tax administration The committee reviewed seventeen separate sets of proposed regulations since its last report to Council. The group noted that the most complicated and generally the most voluminous proposals continue to be in the area of foreign-source income.

Committee representatives met with IRS officials to urge that Revenue Procedure 64-16 be retained. The procedure sought to bypass the long-standing problem of defining a "method of accounting" by providing instead for changes in "accounting practice." The committee felt that retention of RP 64-16 should assist taxpayers in the early settlement of cases which otherwise might result in extended negotiation. The Service had given indications it was considering the withdrawal of the procedure following the recent *Fruehauf* decision.

Code changes The committee is developing new recommendations for amendments to the Internal Revenue Code and intends to submit them to the Congress when it meets early in 1965.

Work papers The September *CPA* and the October *Journal* carried accounts of the committee's discussions with IRS regarding their agents' access to CPAs' working papers.

Retirement benefits The executive committee has adopted the recommendations, submitted to it by the Federal tax committee, that the Institute adopt and pursue a policy of active leadership and support of attempts to obtain legislation to improve and liberalize the original provisions of the Self-Employed Individuals Tax Retirement Act of 1962. The committee recommended several changes in the existing "Keogh" provisions.

★ **Federal Government** The senior committee on relations with the Federal Government told Council it continues to devote attention to such matters as:

- Co-ordination with agencies on utilization of generally accepted accounting principles
- Improved co-operation with agencies on compliance reports
- Assistance to agencies in programs which make use of independent audits (see JofA, Sept. 64, Washington Background, p. 32).

The committee, composed of seven members, co-ordinates reports from its seven consulting committees and ten consultants and deals with problems common to the Federal agencies.

The committee structure will be expanded in 1964-65 to provide it with consultants assigned to the Federal Aviation Agency, the Agency for International Development, and the Department of Health, Education and Welfare. In addition, at the agency's request, the Federal Power Commission will receive expanded coverage by a consulting committee rather than by a consultant.

Co-operation with agencies The senior committee pointed out to Council some examples of co-operation between its component committees and consultants and the agencies during the year. For example:

- The Small Business Administration issued its revised examination guide and Form 478 (affecting small business investment companies) in a form generally consistent with comments advanced by a special *ad hoc* committee of the American Institute, working with Paul Lambert, Jr., the committee consultant to the SBA.
- The Department of Labor has considered future revision of Annual Report Forms D-1 and D-2, affecting some 150,000 welfare and pension plans reports. Proposed revisions, developed through consultant Howard W. Maloy, were offered at the agency's request.
- The Bureau of Public Roads reported a sharp increase in outside accounting assistance to states using Federal highway funds. Following consultation with the agency, two earlier Washington Background columns in *The Journal* had pointed out the need for such assistance.
- Sam B. Tidwell, committee consultant to the Office of Education, and past Institute President Samuel J. Broad, together with three other CPAs, met with officials of the agency to provide technical assistance for the first draft (now partially completed) of a proposed handbook on generally accepted accounting principles for state and local school systems.

Progress noted The chairman of the senior committee noted that "substantial progress has been made in the area of Federal relationships, with particular emphasis on improved Federal financial control in programs involving the use of outside accountants; in better knowledgeability of American Institute recommendations affecting generally accepted accounting principles; in over-all clarification of problems in the area of compliance work related to the use of outside accountants and their clients; in the minimization of substandard reporting; and in many other areas."

★ **Ethics group reports** The committee on professional ethics told Council that it is considering a proposed new Rule 5.04, which would require members to co-operate with the committee and to respond to communications from the committee within thirty days on matters involving possible violations of the Code or By-Laws. During the business session on October 5, four proposed changes in the Code were discussed.

Non-CPA specialists A subcommittee is discussing the problem of the utilization of non-CPA specialists by accounting firms. The subcommittee will submit a report to the full committee which will discuss this at its next meeting, which is scheduled for December.

Reinstatement proposal The present By-Laws have no provision for the reinstatement of members who have been expelled by the Trial Board or whose membership has been terminated by the executive committee under Article V, Section 4(f). The ethics committee is considering a proposal that the By-Laws be amended to provide for the reinstatement of such members after a reasonable period of time. The committee expects that this proposal will be the subject of a further recommendation to the executive committee and the Council next spring.

★ **Common Body of Knowledge** The Common Body Study is proceeding according to the Commission's last report to Council (*The CPA*, June 64, p.3). The report of the director of the research project on the Study is expected to be published in the summer of 1965, after review by the Commission.

May 1964 examination There were 14,173 candidates who wrote 49,600 papers last May 13-15, an increase of about 1,000 and 4,500, respectively, over the May 1963 statistics, thus establishing new record totals.

For the first time an IBM 1230 Optical-Mark Scoring Reader was used to grade the objective questions on the examination. The Board of Examiners "found it to be quite reliable. . . ."

The honor roll of states—those whose CPA-examination candidates had passing percentages in all subjects above the national average—is as follows: Alabama, Colorado, Delaware, Illinois, Indiana, Massachusetts, Minnesota, Missouri, Oklahoma, Utah, Wisconsin, and Wyoming.

Recruiting students A new recruiting booklet, "A Career as a Certified Public Accountant," has been prepared to take the place of "Accounting May Be the Right Field for You."

The Institute will have four National Merit Scholarships in effect during 1964-65. The committee on relations with universities reported to Council that "those persons to whom scholarships have been awarded in the past are making satisfactory progress toward degrees."

★ **Management services** The committee on management services by CPAs has continued to concentrate its efforts on (1) a forthcoming series of technical studies, (2) machinery for referrals of management services within the profession, and (3) scope and competence.

★ **Practice review** The committee on practice review received for consideration thirty cases from members during the last five months. Since the committee was appointed two years ago, it has received for consideration ninety-six cases. Of these, sixty-four have been completed and the remaining thirty-two are in various stages of processing.

In its report to Council, the committee expressed the wish that "Council members and all other Institute members will continue to take an active part in the practice review program by providing the committee with its raw material—possible substandard audit reports."

Publication considered The committee is continuing its study of just what type of publication or information may be prepared from the review cases—without any identification of the companies and auditors involved. A summary is in progress of the types of deviations found in the completed sixty-four cases. The committee will consider the selection of several recurring areas of substandard practices in this summary for the preparation of a statement.

State society programs Five states have instituted programs which have operating procedures quite similar to those followed by the committee. Three states and two large local chapters have programs operating in co-operation with a bankers' association. Thirteen other states have a plan or program for improving the level of practice through educational programs, review and discussion of auditors' reports with bankers' associations, review of audit working papers on a co-operative basis, publication of material regarding substandard reporting or otherwise, but these states do not have a formal practice review committee. However, insofar as the committee has been able to ascertain, 28 societies have no program of any kind in the area of practice review or substandard reporting.

Council members in all states where no program has been undertaken have been asked to encourage their state society officers to institute a program.

The committee noted that presidents of state societies should be aware that members of the Institute's practice review committee are most willing to confer with them or to participate in meetings or programs that have the development of practice review at the state level as an objective.

★ **Bank audits** Under the proposed regulations issued recently by the Federal Reserve Board and the Federal Deposit Insurance Corporation, approximately three hundred of the nation's largest banks will be required to have their financial statements certified by independent auditors (JofA, Nov.64, p.22). The committee on auditing procedure informed Council that if these provisions "go into effect as written, substantial accounting and auditing problems will arise because the industry has not heretofore had to deal with generally accepted accounting principles or the impact of independent professional examination on their financial statements."

The committee concluded its report on this matter with the comment that it has been working on these problems for several years in anticipation of the fact that the present problems would some day arise.

"While it can by no means be said that a consensus among industry representatives and members of the Institute has been arrived at, the committee's position on the important issues has been informally made clear to a number of representatives of the banking industry and the committee feels it is in a reasonably good position to deal with the forthcoming problems."

Auditing procedure The committee has approved a survey of approximately one hundred warehouses. The survey will try to find out what auditing procedures have been applied in the past and what controls have existed. The survey will be limited to warehouse companies which engage Institute members to conduct periodic audits.

The committee believes that before any pronouncement can be made in this area it must know what auditing procedures were considered necessary in various circumstances prior to the publicity over the Allied Crude matter.

Other activities Reports of other recent activities of the committee on auditing procedure can be found on page 4 of this issue of *The CPA*.

★ **MAP report** A tabulation of the fourth annual survey of revenues and expenditures of accounting firms, as presented in MAP Bulletin 14c, was published earlier this month. (There's an order form for MAP 14c in this issue.) A bulletin dealing with communications within public accounting firms has been tentatively scheduled for December publication. Maintenance of records and preparation of a staff manual are the subjects of other bulletins under consideration for the coming year.

FROM THE
PRESIDENT
THOMAS D. FLYNN

A Perspective of the Profession

THIS YEAR will be particularly demanding — on CPAs individually and on the profession as a whole.

In spite of this pressure on our daily activities, or perhaps because of it, it is in order for us to take a good hard look at where we want to be ten, twenty, thirty years from now — and how to get there.

It seems particularly appropriate to reappraise our long-range objectives for at least two reasons.

First, we are in the early stages of a scientific and technological revolution of tremendous magnitude. Change will be the order of the day, and

Second, it should help to put in better perspective our recent controversy over accounting principles. Agreement on long-range goals should help to settle problems complicated by short-range difficulties.

First, as to change. It is abundantly clear that the scientific and technological revolution which is presently getting under way will completely dwarf the industrial revolution which began over two centuries ago. The scope, the quality, and the speed of the current changes are of a much higher order of magnitude than those of the industrial revolution.

Computers, together with input and output devices and controls, offer a staggering range of applications. We accountants will be living in the age of the computer. The electron and the atom will be the servant of man — like the genie of Aladdin — provided we can avoid the awful devastation which a nuclear war would bring.

In such a dynamic environment, it is almost impossible to make intelligent decisions on immediate problems without keeping our perspective on long-range goals.

Let me illustrate this point by reference to our recent discussions over generally accepted accounting principles.

Council debated this subject at length at the spring meeting. It spent a large part of the recent fall Council meeting seeking a solution to a phase of this important problem — a solution which was acceptable to an overwhelming majority of our members.

We made definite progress. We can look forward to further progress at the next spring meeting when Council will have an opportunity to consider in some depth a comprehensive study of the status of Opinions of the Accounting Principles Board. Hopefully, this will lead to adoption of a general statement of the philosophy, purpose, and aims of the Institute in this area.

"An era of increasing change"

Why is a long-range perspective particularly important in relation to accounting principles? In an era of increasing change, our aim should be continuous accommodation to these changing conditions, not a once-and-for-all answer to each problem which confronts the profession. Let us not expect one "final and complete solution" at the next Council meeting to the problem of "generally accepted accounting principles," together with all its ramifications. Our job should be to find common grounds of understanding and agreement within the profession which will move us toward a solution. The recent action by Council on disclosure in financial statements of departures from APB Opinions is an excellent example of what I have in mind. Of course we need to explore our differences thoroughly but we have equal need to be sure that we understand our areas of agreement and that they be stated with clarity. We do not want any disagreements to paralyze the profession from effective action. Nor do we want the public to obtain a distorted and incorrect picture of intramural disharmony within the profession.

While we should feel keenly our responsibility for leadership in the area of accounting principles, we should also make it clear to the public that we do not and should not have an exclusive responsibility in this area. Many other parties have a vital interest and a responsibility to participate in an orderly solution in this and other accounting problems: corporate leaders, including the financial executives, the stock exchanges, bankers, investment counselors, security analysts, and the important government agencies, such as the Securities and Exchange Commission.

In other words, we should not bear the whole brunt of attack nor the full burden of rebuttal for the existing differences as to what constitutes generally accepted accounting principles. What we should be able to do is to state clearly what we believe to be our proper obligations, what we intend to do to discharge them, and how we shall go about it.

"What the future holds"

It is not likely as we look ahead that we will all agree, even within rather wide limits, as to precisely what the future holds for our society and for the accounting profession over the next twenty-five years. However, I think that most of us will agree that the future will be bright for the profession.

During the last two years the long-range objectives committee has been giving extensive study to the probable position or outline of the profession a decade or two hence. These studies furnished some of the basic material for the papers presented at the technical sessions of the recent annual meeting.

Our highly respected executive director, John Carey, has just completed a very interesting and readable book based largely on the work of the LRO committee. It should be off the presses early in January.

It is my strong hope that this book and the discussions at the annual meeting will serve as the basis for extended discussions throughout the year at state society meetings and with other interested groups. The raw "facts" and the educated guesses should be subjected to searching analysis. As a result of this probing effort, the profession should be much better equipped to understand the possible range of the future changes, and to distinguish those changes which are in harmony with long-range trends.

What will the changing world bring to the accounting profession — a profession which should number 140,000 CPAs by 1975?

International trade will expand tremendously. The CPA and his professional equivalent in other countries will be of inestimable help in promoting the flow of capital and world trade.

Growth will be vigorous in all the three major areas of our practice. It will afford ample opportunity to every CPA — whether he practices as an individual or in association with other CPAs — as long as he keeps abreast of the latest developments within his field.

Taxes will continue to be an important factor in our economy. Proper advice in this area will continue to require a sophisticated knowledge of accounting as reflected in the tax code and regulations.

In a period of dramatic business change, *management services* of all kinds will be required in increasing amounts, particularly those skills which involve electronic data processing information systems, appropriate reports for various levels of management, and

In this condensed version of his acceptance speech, the AICPA's new president discusses the profession's future.

the reduction of clerical costs.

The auditor will expand his *attest function,* and will express his independent opinion on statements which deal with a much wider range of data than is contained in conventional financial statements. Increasingly, budgets and forecasts are becoming a necessary part of successful management. To keep pace with this development, the CPA will have to concern himself to a far greater extent than he has in the past in the preparation and use of financial statements which *forecast* results of operations.

"Through the computer"

Probably the CPA will be engaged much more in continuous auditing of his clients' businesses, which will require even more intimate knowledge of current operating conditions in those businesses. This will probably tend to reduce the distinction between auditing and management services skills.

This distinction will be further reduced as compatibility increases in the basic knowledge which the auditor and his management services counterpart should have. The auditor of the future will have to perform much of his examination through the use of the computer instead of around it as is often done today. The data which supports his opinions on financial statements will be part of an integrated information system stored on magnetic tapes or in a computer. The auditor will have to be more knowledgeable about the theory of management, organization, the flow of communications throughout the entire information system, and the quality and amount of information which should be provided at various levels of management. It has been suggested that "twenty years from now it may be commonplace for CPAs to assume responsibility for the adequacy of information systems under standards comparable to those which exist today for the audit of financial statements."

For the continued growth of the profession we must increase our efforts on the broadest possible basis to attract outstanding young people. A much larger number of the best young minds need to know about the superior abilities required in the practice of our profession, the interesting and stimulating nature of the work, and the creative contribution which CPAs make to our society.

Many a talented young person who has only a vague awareness of what a CPA does would find in our profession a thoroughly satisfying and rewarding career.

The long-range objectives committee has advanced three basic ideas which could significantly influence the future growth of the accounting profession. The first of these ideas proposes an expanded definition of the accounting function as embracing "the measurement and communication of all financial and economic data."

The second basic idea is "that a professional accounting service can be an integrated service, covering all of management's needs in the measurement and communication of financial and economic data."

The third basic idea is "that the attest function, up to now most prominently identified with the CPA's opinion based on audit of conventional financial statements, can naturally and properly be extended to other areas."

In my year as your president, I hope to encourage and expand exposure and debate of these basics. If, at the end of my term of office, our members have a better idea than they do now where they want to go, and how they can get there, I shall be well satisfied.

PD division adds course on "cash flow"—here are some of the topics it covers

A new course, designed to familiarize the CPA with the funds statement, has been prepared by the Institute's professional development division and is now available for presentation by state societies.

The course, "Cash-Flow Analysis and the Funds Statement," emphasizes the various definitions of funds and explains which definition is most appropriate in cases where the funds statement is presented as a statement of disclosure, as a managerial tool, and as information in support of a loan application.

Participants in the course will also study the *misuses* of "cash flow" measurement in published annual reports and in the financial press and consider the broad problems which may face the accounting profession unless improper uses of "cash flow" data are discouraged.

Some of the practical questions discussed in the course are:

1. What are the various definitions of funds — literal cash, cash and marketable securities, net monetary assets, working capital, and all financial resources?
2. Is it necessary to eliminate depreciation included in year-end inventories when preparing a statement of source and application of funds?
3. What are the requirements of Opinion No. 3 with respect to the definition of funds? Of "cash flow?"
4. What is the nature of "cash flow" and what does it measure?

Members can obtain additional information by contacting their local state society professional development offices.

Did you miss these publications when they were first announced? They are still timely, and all can be ordered from the Institute

Test your AICPA publication quotient. Check off the publications you have read which are listed on the right. How's your average?

During the past year, the American Institute has published more than a dozen guidelines and informative texts which should be a part of every practicing CPA's library. Among these are Opinions of the Accounting Principles Board, Management of an Accounting Practice Bulletins, Accounting Research Studies, official questions and unofficial answers to recent Uniform CPA Examinations, and several reference books.

Here is a brief description of some of these important publications, many of which were advertised in *The CPA* when they first appeared. They can all be ordered from the American Institute of Certified Public Accountants, 666 Fifth Avenue, New York, New York 10019.

MAP Bulletin No. 19: "Retention of Records in Offices of Certified Public Accountants" ☐
—shows how firms of various sizes handle this vexing problem **$1.00**

MAP Bulletin No. 14b: "Revenue and Expenses of Accounting Firms" ☐
—provides a basis for comparing income and expense figures with composite data of other firms tabulated according to size of firm, region, and size of metropolitan area **$1.00**

The Search for Accounting Principles ☐
—traces the development of accounting principles in the United States since 1930, outlines the foundation of these principles and the circumstances and atmosphere in which they were developed, and discusses what needs to be done in the light of the requirements of modern business **$1.50**

MAP Bulletin No. 20: "How to Improve Staff Member Motivation" ☐
—reviews the latest theories of work motivation most useful for public accounting firms **$1.00**

Management Services Handbook ☐
—brings together, in reference form, some of the best materials that have been published to date by the AICPA on these services—services which represent logical and profitable extensions of the professional accountant's special training and experience **$9.00**

Working With the Revenue Code—1964 ☐
—presents some of the outstanding articles and advice that have appeared in the Tax Clinic department of "The Journal of Accountancy" **$3.50, cloth; $2.50, paper**

Institute controller explains the budget: how it's developed, approved, controlled

On the following pages you will find the Institute's financial statements for the year ended August 31, 1964.

Many members have written expressing interest in the AICPA's budget system. This "annual report" seems the right place to provide a condensed version of the answer with which Controller George C. Taylor responds to such inquiries. More information will be furnished to members on request.

Throughout its course — from planning through control — the budget is organized so that at most stages any expenditure can be analyzed from one of three aspects.

1. By *type*: What kind of expense is it—salary? rent?

2. By *purpose*: What membership interest or committee is served by this expense—publications? management of an accounting practice? auditing procedures?

3. By *authority*: Who considers this expense necessary — the accounting research division? the personnel department?

The Institute's budget system provides for an orderly chain of review at the level of the staff or membership appropriate for the size and importance of an expenditure. All expenditures are reviewed at least by AICPA division directors; the most significant are reviewed by the executive committee, the committee on budget and finance and the Council.

Detailed budgets and planning are essential in order to allocate funds required for approved projects and activities of the Institute, as well as to consider allocation of funds for new projects and activities initiated by committees or others.

The staff organization provides the framework for the development of budget needs. The Institute staff is divided into eight divisions, with the executive director, assisted by the managing director, providing over-all supervision. For cost accounting and control, the divisions and the executive office are further divided into thirty staff units called *cost centers.*

The managing director and division directors supply to the controller twice a year personnel requirements by job title for the cost centers under their control. These estimates take into consideration the period of time involved, approved projects or activities, new projects or activities recommended by committees, and they include expected salary increases. These summary estimates are further analyzed according to time to be spent by each individual on the various projects and activities of the Institute.

The resulting summaries of estimated income and expense by cost centers then are discussed by the managing director in individual planning sessions with the division directors.

Approval of the budget

The controller and his staff complete the budget, incorporating any increases or decreases resulting from the planning sessions, and submit it to the executive director. With his revisions, it is presented in terms of expenses by *type, purpose,* and *authority* to the committee on budget and finance.

This committee gives special attention to new projects and to major changes from previous years. With its approval the budgets (in less detail) are submitted to the executive committee and finally to Council. The fall meeting of Council considers the budget for the new fiscal year; the spring meeting considers a revised current-year budget and projections for the four succeeding years.

Controls under the budget

Budget control also is accomplished through the framework of the staff organization with division directors responsible for their cost centers and the controller responsible for ensuring that funds are spent and income maintained according to the over-all budget.

The controller and his staff prepare monthly financial statements which enable the division directors and the executive office to follow closely their expenditures as compared to budget and to govern future commitments. Monthly time sheets that show the hours spent each day on various projects and activities furnish the basis for allocating salaries and proportionate overhead by *purpose.* Other expense items are charged directly. Certain general service functions (general accounting, personnel, etc.) are not distributed because any allocation would be largely arbitrary.

These monthly financial reports all provide four sets of figures to facilitate analysis and control: actual and budget for year to date, total budget for the year, and total actual expenditures for the previous year. They show total Institute expenditures by *purpose* — a statement for each separate project or activity. Each of these over-all statements is supplemented by two detail statements for each of the thirty cost centers showing expenses by *type* and by *purpose.*

The controller analyses major deviations, summarizes the reasons for them, and makes recommendations concerning them in a monthly report to the executive office. The executive committee reviews financial statements showing comparisons to budget at each of its meetings, which take place about every two months.

Financial Statements

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

STATEMENTS OF ASSETS, LIABILITIES AND FUND BALANCES

August 31, 1964 and 1963

GENERAL FUND

ASSETS

	1964	*1963*
Cash—savings accounts	$1,594,008	$ 961,475
Cash—other	117,285	237,645
Marketable securities, at cost (quoted market 1964—$786,048; 1963—$720,330)	704,906	629,970
Receivables	169,340	142,953
Inventories, at cost	106,480	60,587
Prepaid expenses	22,066	15,609
Furniture and equipment, at nominal value	1	1
Total assets	$2,714,086	$2,048,240

LIABILITIES AND FUND BALANCES

Liabilities:		
Note payable in $5,000 semi-annual instalments	$ 85,000	$ 95,000
Other payables	151,637	155,993
Dues collected in advance	847,599	701,753
Unearned subscriptions and advertising	381,724	295,496
Advance registration fees	30,751	
Due to Elijah Watt Sells Scholarship Fund	232	147
Total liabilities	1,496,943	1,248,389
Unexpended balance of Carnegie Corporation grant for Common Body of Knowledge study	18,758	22,133
General Fund balance:		
Reserved for contingencies	400,000	400,000
Income retained for working capital	798,385	377,718
Fund balance	1,198,385	777,718
	$2,714,086	$2,048,240

ENDOWMENT FUND

Assets:		
Cash—savings accounts	$ 129,926	$ 91,926
Cash—other	1,196	54
Marketable securities, at cost (quoted market 1964—$520,016; 1963—$528,639)	296,375	326,335
Library books, furniture and equipment, at nominal value	1	1
Fund balance	$ 427,498	$ 418,316

ELIJAH WATT SELLS SCHOLARSHIP FUND

Assets:		
Marketable securities, at cost (quoted market 1964—$5,824; 1963—$5,385)	4,655	$ 4,645
Due from General Fund	232	147
Fund balance	$ 4,887	$ 4,792

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

STATEMENTS OF INCOME AND EXPENSE

Years Ended August 31, 1964 and 1963

INCOME

	1964	*1963*
Membership dues	$1,625,594	$1,529,018
Investment and sundry income	170,715	97,853
General income	1,796,309	1,626,871
Self-supporting activities:		
CPA examinations, Journal of Accountancy (non-members), Management Services magazine, Professional Development program, sale of miscellaneous publications:		
Gross income	2,271,835	1,901,245
Cost of self-supporting activities	1,946,365	1,617,339
Net income from self-supporting activities	325,470	283,906
Total	2,121,779	1,910,777

EXPENSE OF ACTIVITIES AND PROJECTS

Direct service to members:		
Journal of Accountancy, CPA, membership directory, technical publications, library, communications with members, and annual meeting	576,865	571,313
Maintenance of professional standards:		
Accounting research (see special credit), auditing procedure, ethics, personnel recruiting, research in Common Body of Knowledge (see special credit)	388,300	336,976
Relations with state societies	73,065	81,076
External relations:		
Federal government, Federal taxation, aids to education, universities, and other outside groups	195,617	216,486
Internal affairs:		
Council and committees (including Executive Committee), maintenance of membership	209,394	191,877
Service activities not allocated:		
Accounting and finance, service functions, general management, legal fees	417,561	430,451
Total regular expense	1,860,802	1,828,179
Excess of income over expense, before extraordinary expense and special credits	260,977	82,598
Extraordinary expense:		
Net expense of Eighth International Congress of Accountants (additional to $75,000 provided in prior years)	$	$ 76,554
Net expense of VI Inter-American Accounting Conference		50,088
Costs of relocating AICPA offices		139,893
Net cost of sub-leasing space available for future expansion		44,530
		311,065
Excess of income (expense) before special credits	260,977	(228,467)
Special credits:		
Contribution from American Institute of Certified Public Accountants Foundation for accounting research program	131,315	143,645
Contribution from Carnegie Corporation toward costs of research in Common Body of Knowledge	28,375	2,867
	159,690	146,512
Transferred to income retained for working capital	$ 420,667	($ 81,955)

STATEMENT OF CHANGES IN FUND BALANCES

Year Ended August 31, 1964

	General	*Endowment*	*Elijah Watt Sells Scholarship*
Balance, September 1, 1963	$ 777,718	$418,316	$4,792
Excess of income over expense	420,667		95
Gain on sale of securities		9,182	
Balance, August 31, 1964	$1,198,385	$427,498	$4,887

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS FOUNDATION

STATEMENTS OF ASSETS AND FUND BALANCE

August 31, 1964 and 1963

	1964	*1963*
Assets:		
Cash—savings accounts	$443,440	$318,440
Cash—other	10,459	34,059
Marketable securities, at cost (quoted market 1964—$316,750; 1963—$350,548)	285,335	330,583
	$739,234	$683,082
Fund balance:		
Accounting research program	$638,614	$582,494
Library (including permanent capital of $2,747)	100,620	100,588
	$739,234	$683,082

STATEMENTS OF CHANGES IN FUND BALANCE

Years Ended August 31, 1964 and 1963

Income:		
Income from securities, less custodian fees	$ 26,837	$ 24,343
Contributions received:		
For support of accounting research program	166,370	172,258
Miscellaneous	32	18
Total	193,239	196,619
Disbursements:		
Contributions to American Institute of Certified Public Accountants:		
For library expense	4,000	4,000
For costs of accounting research program	131,315	143,645
Stationery, postage and other expenses	315	401
Loss on sale of securities	1,457	182
Total	137,087	148,228
Net increase in Fund	56,152	48,391
Fund balance, beginning of year	683,082	634,691
Fund balance, end of year	$739,234	$683,082

AMERICAN INSTITUTE BENEVOLENT FUND, INC.

STATEMENTS OF ASSETS AND FUND BALANCE

August 31, 1964 and 1963

	1964	*1963*
Assets:		
Cash—savings accounts	$104,105	$ 66,605
Cash—other	6,255	15,461
Marketable securities, at cost (quoted market 1964—$263,270; 1963—$254,950)	213,165	223,704
Fund balance:	$323,525	$305,770

STATEMENTS OF CHANGES IN FUND BALANCE

Years Ended August 31, 1964 and 1963

Income:		
Contributions	$ 17,857	$ 15,720
Income from investments	13,311	12,561
Sundry		200
Total	31,168	28,481
Disbursements:		
Assistance to members	9,880	8,590
Stationery, printing and other expenses	866	985
Loss on sale of securities	2,667	336
Total	13,413	9,911
Net increase in Fund	17,755	18,570
Fund balance, beginning of year	305,770	287,200
Fund balance, end of year	$323,525	$305,770

NOTE—The American Institute Benevolent Fund, Inc., has been named remainder beneficiary of the estate of Harold Burton Hart, deceased, a former member of the Institute. It is expected that the final accounting of the estate will be completed before December 31, 1964 and that the Fund will receive a bequest of approximately $200,000.

MAP Bulletin No. 14c

REVENUE AND EXPENSES OF ACCOUNTING FIRMS

The latest bulletin in the Management of an Accounting Practice series — No. 14c: *Revenue and Expenses of Accounting Firms* — has just been published.

This third annual survey — a supplement to MAP Bulletin No. 14: *Basic Financial Reporting for Accounting Firms* — is based on replies to a questionnaire which was sent to all accounting firms and individual practitioners represented in the American Institute. The study therefore provides you with a basis for comparing your own income and expense figures with composite data which have been tabulated according to size of firm, region, and size of metropolitan area.

SOME HELPFUL EXHIBITS INCLUDED IN THE SURVEY

* Firm net income by number of partners.
* Hourly billing rates by class of staff.
* Normal percentage of employee annual base salaries recovered in daily billing rates.
* Total salary, operating expenses and net income percentages.
* Operating expenses as a percentage of gross income.
* Average billing — per person per year — by size of firm.

MAP Bulletin No. 14c is available at $1.00 per copy. We will be glad to send it to you as soon as we receive your instructions.

SEE REVERSE SIDE FOR EARLIER BULLETINS AVAILABLE

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
666 Fifth Avenue, New York, New York 10019

Gentlemen: Please send, postpaid, ___ copies of MAP Bulletin No. 14c: *Revenue and Expenses of Accounting Firms* @ $1.00 each. Payment is enclosed.

Also send the following earlier bulletins @ $1.00 per copy:

Nos. ______________________________

NAME ______________________________

FIRM ______________________________
(if part of mailing address)

ADDRESS ______________________________

CITY ____________ STATE ________ ZIP CODE ________

☐ Check here if you also wish to order a post binder for MAP Bulletins @ $3.00.

(Please add 4% sales tax in New York City.)

MANAGEMENT OF AN ACCOUNTING PRACTICE

EARLIER BULLETINS STILL AVAILABLE

NOTE: Bulletins No. 1-13 (originally published under the title ECONOMICS OF ACCOUNTING PRACTICE) and Bulletin No. 14 have been incorporated in the ACCOUNTING PRACTICE MANAGEMENT HANDBOOK.

3	The Difficult Art of Setting Fees
4	Getting and Keeping Good Staff Accountants
5	Controls for the Effective Use of Time
6	Building Sound Relations with Your Client
7	Selection and Admission of New Partners
8	Survey of Accounting Office Expenses
9	Bankers' Attitudes Toward the CPA
10	Insurance for Accounting Firms and Practitioners
11	Billing and Collection Procedures
12	Selected Tax Problems of Accounting Partnerships
13	Planning a Practice for Growth
14	Basic Financial Reporting for Accounting Firms
17	Advance Planning for Continuation of a Practice
18	Application of Data Processing Methods to the Management Requirements of Accounting Firms
19	Retention of Records in Offices of Certified Public Accountants
20	How to Improve Staff Member Motivation

HURDMAN AND CRANSTOUN
CERTIFIED PUBLIC ACCOUNTANTS
43 BROAD STREET
NEW YORK, N.Y. 10004

To the Members of the American Institute
of Certified Public Accountants:

We have examined the statements of assets, liabilities and fund balances at August 31, 1964 of the American Institute of Certified Public Accountants, the American Institute of Certified Public Accountants Foundation, and the American Institute Benevolent Fund, Inc, and the related statements of income and expense and fund transactions for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying statements of assets, liabilities and fund balances and of income and expense and fund transactions present fairly the financial position of each of the aforementioned organizations at August 31, 1964, and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Respectfully submitted,

Hurdman and Cranstoun

Certified Public Accountants

New York, New York
September 25, 1964

1963-64: the very best of all six years for the professional development program

Revenues exceed costs!

Enrollments top fourteen thousand!

Those were the happy highlights of the professional development program's sixth year of operations.

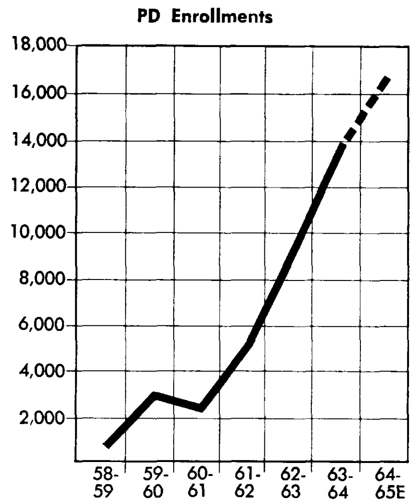
The PD division's Board of Managers reported to Council that it was the first time the program ended a year with a surplus. During its first five years, the division had accumulated deficits of $169,200. Fiscal 1964 results, which show an excess of receipts over disbursements of $22,500, reduce this figure to $146,700.

Enrollments of 14,250 in fiscal 1964 represent an increase of almost 5,000 over fiscal 1963 and an almost seventeen-fold increase over the 814 enrollments during the program's first year, 1958-59. (See chart at right.) The division expects that enrollments will approach 17,000 this year.

The report to Council emphasized that "a significant factor in the success of the program has been the work of the state society organizations" and that "there are now five states with full-time professional development directors or managers as well as three other states with part-time directors."

Eight new courses are expected to be completed during the current year. Of these, "Training Program for In-Charge Accountants" is to be given top priority.

In conclusion, the report notes that "there are now sufficient courses to establish a broad enough base to maintain the professional development division on a self-sustaining basis over the long run. Courses have been prepared in almost every area of the CPA's activities. . . . At the same time, new courses will be prepared in all areas of professional practice to assure the attainment of the professional development division's objective of increasing the competence and stature of CPAs by making available to them and their staff assistants a well-rounded program of continuing education."



CPA

OCTOBER 1964

The CPA is the membership bulletin of the American Institute of Certified Public Accountants, Inc.
666 FIFTH AVENUE, NEW YORK, N. Y. 10019

Second class postage paid at New York, N. Y.

THE NOVEMBER 1964

CPA

Bank committee calls certification essential in letter to agencies

A proposal by two Federal agencies to require independent audits of about 300 of the larger banks has been strongly endorsed by the AICPA committee on bank auditing. In commenting on tentative regulations issued by the Federal Reserve Board and the FDIC, the committee declared that certification was essential to carry out the intent of Congress in the 1964 revision of the Securities Acts. It also said that arguments which had been advanced against the certification requirement were without substantial merit. The agencies' proposals have provoked strong differences of opinion within the banking industry and other financial circles. (See *The Journal,* Oct.64, p.26, Nov.64, p.22.) The full letter and an editorial on the issue will appear in the December *Journal.*

Forum on legislation draws members from thirty-six states

Nearly 100 representatives from 36 state CPA societies are convening in Chicago for the first National Conference on State Accounting Legislation as this issue of *The CPA* goes to press. The three-day meeting provides members with an opportunity to exchange views on the best means of developing and maintaining the legislative standards of the accounting profession.

IRS official discusses program evaluating audit guidelines

"Special tax-return study seeks new guides for IRS sleuths.... The guides are closely guarded secrets. . . ." These quotes from a *Wall Street Journal* news item moved the Institute to ask IRS for a description of how it chooses returns for audit and how it plans to revise these criteria. Donald W. Bacon, Assistant Commissioner, Compliance, responds to these questions in an exclusive interview on page 4.

New AICPA magazine recognized for wide coverage of EDP

Five selections from recent issues of *Management Services,* the Institute's new magazine, appeared in the October *Data Processing Digest,* the "Bible" of digests in data processing and related subjects: "PERT/Cost—The Challenge," "Industrial Dynamics," "The EDP Feasibility Study," "An Internal Control Checklist for EDP," and "On Line-Real Time Systems—1964." The topics chosen for selection indicate the scope of coverage of the new magazine. The *Digest* also presented an article from *The Journal,* "Evaluating Internal Controls in EDP Systems," a selection which demonstrates *The Journal's* continuing commitment to cover relevant data-processing developments for its readers.

Official account of annual meeting starts on page 5

The official minutes of the recent meeting in Miami are printed in this issue (satisfying a requirement of the By-Laws). They provide an official text of the proposed amendments to the By-Laws and Code of Professional Ethics which will go to all members for mail ballot early next year along with a summary of the pro and con arguments presented at the annual meeting.

The CPA, November 1964. Published monthly, except July-August when bimonthly, for membership of the AICPA, Inc. Vol. 44, No. 10. Publication and editorial office: 666 Fifth Ave., New York, N. Y. 10019. Second-class postage paid at New York, N. Y.

Who wants to be a CPA? Not enough of the right students, U.S. study finds

Twelve per cent of twelfth grade boys would like being a CPA "very much."

Another 23 per cent would like it "fairly well."

These are findings in *The American High School,* the recently published final report of Project Talent, a research program conducted for the U.S. Office of Education. The project studied the aptitudes, abilities, knowledge, interests, activities, and backgrounds of high school students. It obtained data from the very large probability sample of about 300,000 pupils in about 1,000 school systems.

Project Talent also found that 4.8 per cent of twelfth grade boys and 2.8 per cent of twelfth grade girls expected to become accountants.

These figures seem to warrant some optimism. A lot of students are favorably disposed toward accounting. However, many who would like being a CPA "very much" or "fairly well" like other pursuits equally well. And many who expect to become accountants *just don't have the intellectual capacity to become CPAs.* Project Talent's findings regarding *quality* rather than quantity of manpower show the profession's recruiting problem more clearly. The graph at right shows the patterns of academic ability of those twelfth grade boys who expected to go on to specialized study in four fields, including business:

Note these findings:

- Of twelfth grade boys who expected to specialize in business, only about 5 per cent had attained percentile ratings 90-100.
- Of those who expected to specialize in each of the other three fields, over 20 per cent of the prospects were among these top students.
- Also, there was a smaller proportion of business-oriented boys in percentile ratings 80-90.

The graph helps to explain why a CPA often has a hard time when he is looking for a staff man with the potential to become a professional colleague. Only accounting, among the four major professions, must recruit from a relatively mediocre manpower pool because most intelligent high school boys are ignorant about the opportunity in our business-directed society.

What is being done

This situation, which Project Talent has now described statistically, has been recognized in a general way for some time. As a result, the Institute's recent efforts in recruiting have been geared to the pursuit of quality; and they are designed to stimulate interest in the broad world of business and finance as well as specifically in accounting.

During 1963-64, the Institute's recruiting film, *CPA,* was shown to live audiences 5,416 times, with 244,679 viewers; there were 44 TV showings to an estimated audience of 1,858,000. Not enough of the live showings were before college preparatory students. So the Institute's recruiting film-in-progress is being designed for use in eleventh and twelfth grade social studies, required subjects for all students in almost all school systems. The film will show challenges in business decision-making as well as in public accounting.

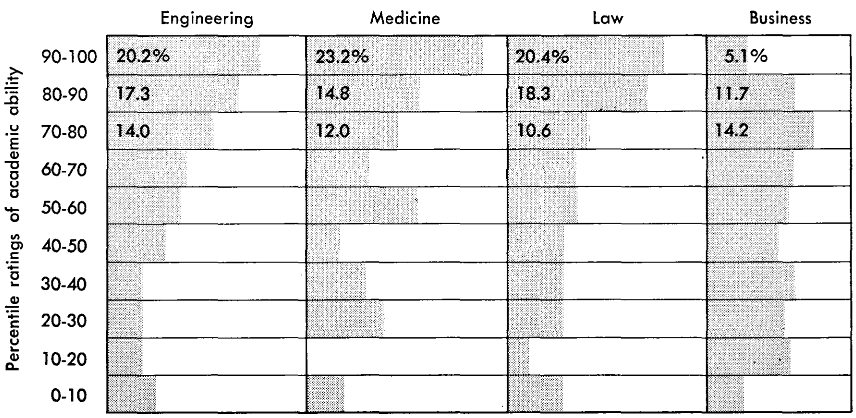
The recruiting pamphlet, *Accounting May Be the Right Field for You,* is being replaced by a new pamphlet, *A Career as a Certified Public Accountant.* The new one draws heavily from the old one, which has been much praised by educators. Some new text and photographs stress aspects of public accounting that are likely to appeal to the superior student.

The Accounting Careers Council, of which the Institute is a member, is mailing letters this month to 32,000 high school mathematics teachers; these letters explain some of the uses of math in business administration and in accounting. Again, this is an attempt to stimulate the interest of pupils who are tops in analytical and general academic ability.

Since CPAs compete in campus recruiting with experienced professional personnel managers, the Institute makes available to members (free on request) *How to Hire Junior Accountants,* a brochure with an LP recording on interviewing job candidates, a discussion of how to use the Institute's testing program, and other aids in getting qualified staff men.

JOHN ASHWORTH
Education Division

Percentile Ratings of Twelfth Grade Boys Who Expect to Specialize in Four Fields



What can the Institute do for you? Services cover a surprising range

Auditing an oyster bed? Lost in the Washington maze? This excerpt from the managing director's report to Council shows how AICPA handles requests—whether routine or bizarre

You have heard a lot in recent months about what the Institute intends in terms of projects, programs, and plans.

I'd like to review for you what the Institute means for members personally.

A member's call for assistance can be sounded in many ways. Early one evening several years ago a call came in from California for Carman Blough. I told the caller that it was eight o'clock in New York and Mr. Blough had left for the day. There was a long silence – and then over the transcontinental lines came a moan. "My God," said the caller, "what am I going to do now? I'm about to go into a directors meeting, and I need Carman's advice."

He got it. Carman, sadly, has retired from our staff organization, but the desperate callers are still being helped by others.

The troubled member not only uses the telephone; he comes into the office—either to confer with a member of the staff or to consult the library. The library alone has more than 13,000 visitors every year.

Or he uses the mails to present his problem. In a typical day, the Institute will receive 2,000 pieces of mail. If this were a contest, the Institute would win by a four-to-one margin because 8,000 pieces of mail will be shipped out of the office on the same day, many of them devoted to responding to individual appeals for assistance.

What kind of help is sought?

The inquirer may be concerned about a technical problem. One of my favorite questions was on how to audit an oyster bed, a tricky operation since the oyster sickens with resentment if disturbed in his bed. I don't remember the answer – but the Technical Information Service had one.

Or the wife of a member who is unaware of the fact that he has a fatal illness may appeal for discreet help in maintaining his practice before its value is dissipated—and some long-distance calls rally his professional colleagues in a rescue operation.

Or a member may get lost in the bureaucratic maze in Washington—and the Washington office acts as his guide.

Or a practitioner in the Midwest may be looking for a reliable correspondent in Europe – and the firms with international practices provide expert counsel which is relayed to the inquirer.

Or an elderly member may explain why he cannot afford to maintain his membership. He is too proud to ask for help, but it is apparent that help would be welcomed. If a genuine need does exist, it will be met by the trustees of the Benevolent Fund.

Or a member may be uncertain about the propriety of a contemplated action and turns to the committee on professional ethics. If a precedent can be found in the committee's prior rulings, the staff will answer the inquiry – as it has answered more than a thousand such inquiries this year.

Not members only

But it is not only members who rely upon the Institute.

Literally thousands of students, for example, write to us every year for more information about accounting as a career – and though a few now and then suggest that they wouldn't be adverse to our writing a term paper for them, most appear to be engaged in an honest quest for information. Some of them may be the profession's future leaders.

Scores of people from abroad, all of them eager to learn how things are done in this country, visit the Institute each year. It may well be, as some skeptics argue, that we are simply adding strength to our competitors; but the odds are even better that we are winning friends and, possibly, even influencing people who will sharply affect our own future.

And, with increasing frequency, the Institute is also being consulted by government agencies, by accounting organizations here and abroad, and by the press.

These inquiries from the press are not always well-informed—and the resulting write-ups are not always pleasing. But we cannot shun the public's widening interest in accounting. Perhaps we should consider it as representing opportunity, not obligation, for a professional society. In line with this positive approach, we have been encouraged in exploratory efforts to develop a seminar program which would help explain professional accounting to promising members of the press—and also might help CPAs understand the problems of the press.

At your service

It is not enough merely to be ready to serve members; members should know what these services are so that they can use them when the need arises.

That requires the staff to devote a substantial amount of its time to encouraging a steady flow of information back and forth between the membership and the Institute's headquarters. One of the principal communication tools is this monthly *CPA*. It involves virtually every key member of the staff – not only in the preparation

(continued on page 4)

(*continued from page 3*)
of material, but in a monthly conference to canvas what developments should be reported in its pages. Perhaps as a reader you have some suggestions.

The printed word must be supplemented by the spoken. Last year officers, committeemen, and staff members spoke before accounting audiences in nearly every state of the Union. And six members of the staff made less formal appearances in smaller communities as part of a regular program of field visits.

The quality of the day-to-day assistance to be rendered by the Institute depends in good measure upon the quality of its staff.

That means we must be able to attract and then retain first-rate people. It means, too, that we must provide opportunities for advancement and personal growth, a clear definition of the responsibilities and authority for each staff position, and supervision throughout the staff which liberates rather than imprisons. The creation of that kind of work-environment devours a lot of everyone's time at every staff level.

It will come as no surprise to you who manage or help to manage your firms that this is all easier said than done. But you can be sure of one thing: We have been working at it for some time – and intend to keep at it.

This report's emphasis on the personal services performed by the Institute is not intended to disregard the major programs of the Institute – the programs designed to advance the over-all objectives of the profession.

Yet, at the same time, it should never be forgotten that the Institute was created by people as a means of helping each other. In fulfilling that mission – day after day, year after year – the Institute is building a vast reservoir of membership loyalty.

Without that loyalty, it could accomplish little.

JOHN LAWLER
Managing Director

IRS official answers members' questions on taxpayer compliance: a CPA first

In response to inquiries by members of the American Institute on how the Internal Revenue Service gauges voluntary taxpayer compliance, and what the objectives of the agency's Taxpayer Compliance Measurement Program are, Donald W. Bacon, Assistant Commissioner, Compliance, answered the following questions for *The CPA*:

1. Why a taxpayer compliance measurement program at all?

"For a number of years the Internal Revenue Service has had as one of its main objectives the improvement of voluntary compliance by the taxpayer. We also wanted the total effort of the Service redesigned to improve voluntary compliance by inducing the greatest number of taxpayers to voluntarily file correct tax returns and pay their outstanding balances on time. At the same time, another Service objective was to establish a long-range research program to gather data on a scientific basis in order to provide the information needed to implement our Long-Range Plan and to optimize Federal tax administration.

"In order to evaluate the effects of the Service's effort to accomplish these objectives, an acceptable method of measuring levels of taxpayer compliance and changes in compliance levels was needed. After deliberation, these demands were combined into one long-range research program, namely 'The Taxpayer Compliance Measurement Program.'"

2. In what areas is TCMP now operative?

"TCMP is operative in the three tax enforcement areas of Delinquent Accounts, Delinquent Returns, and Individual Returns Filed. The Delinquent Accounts Phase, which can also be called the tax payment delinquency area, was installed on a nationwide basis to provide detailed information for calendar years 1963 and 1964, and designated subsequent years, on bills and notices issued to taxpayers and, in those cases where the taxpayer fails to respond, on Taxpayer Delinquent Accounts (TDA's). New, detailed information is being collected on the number and amounts of such issuances and closures by source of issuance, types of tax, size of tax, geographical location, and man-hour costs."

3. What are the objectives of TCMP?

"TCMP has seven primary objectives, namely, to determine: (1) the total tax administration workload; (2) the portion of the total workload accounted for by current operations; (3) the portion of the total job that is left undone; (4) the level of taxpayer compliance; (5) changes in level of taxpayer compliance, and whether compliance is increasing or decreasing under existing programs; (6) the effectiveness with which current operations are being conducted; and (7) the net tax administration gap."

4. How do you feel about the ultimate success of TCMP?

"TCMP objectives are ambitious, but we believe that they can be substantially attained, although not necessarily all of them in the immediate future. Although we have not been giving the program much publicity at this stage . . . it is beginning to draw international interest, and other Nations may be undertaking analogous programs in the future."

Minutes of the Annual Meeting

Bal Harbour, Florida, October 5, 1964

The seventy-seventh annual meeting of the American Institute of Certified Public Accountants convened at 9:00 A.M., October 5, 1964, at The Americana Hotel, Bal Harbour, Florida. President Clifford V. Heimbucher presided.

Address of Welcome

Robert F. Stonerock, president of the Florida Institute of Certified Public Accountants, welcomed the members of the AICPA to Florida.

Approval of Minutes

Minutes of the annual meeting of October 8, 1963, were approved as printed and circulated to the membership.

Report of the Auditors

Edward F. McCormack, of the firm of Hurdman and Cranstoun, presented the report of the auditors.*

Introduction of Guests From Other Countries

The chairman introduced the following guests from abroad who extended greetings from the accounting organizations in their respective countries:

Derek R. Lukin Johnston, president of the Canadian Institute of Chartered Accountants; Manuel Fernandez Marquez, president of the Instituto Mexicano de Contadores Publicos; Jose Manuel Pintado, president of the Colegio de Contadores Publicos de Mexico; Alfredo M. Velayo, official representative of the Philippine Institute of Certified Public Accountants.

Introduction of Past Presidents

The chairman announced that it was his pleasure to introduce the following past presidents of the Institute:

George D. Bailey	1947-48
Percival F. Brundage	1948-49
Alvin R. Jennings	1957-58
Norman L. McLaren	1941-42
Louis H. Penney	1958-59
Louis H. Pilié	1960-61
John W. Queenan	1961-62
J. S. Seidman	1959-60
J. Harold Stewart	1949-50
T. Dwight Williams	1945-46
Robert E. Witschey	1962-63

Report of Council

At the request of the chairman, Thomas H. Carroll presented the report of Council. Upon motion duly seconded, the report of Council and all acts of Council during the year were approved.

Report of the President

President Heimbucher presented his report to the members.

Election of Officers and Members of Council

The chairman announced that the next order of business was election of officers and members of Council for the ensuing year. Upon request of the chairman, Robert E. Witschey presented the report of the committee on nominations.

The chairman of the committee on nominations announced that the committee proposed Thomas D. Flynn, of New York, for president. It was moved and seconded that the nominations be closed and that the secretary cast one ballot for the election of Mr. Flynn. The motion was carried, the ballot was cast, and Mr. Flynn was declared duly elected.

The president was escorted to the dais.

The following members, proposed for the offices of vice presidents and treasurer, were nominated by the committee on nominations:

Vice Presidents

Horace G. Barden, Ill.; Maurice J. Dahlem, Calif.; Bernard B. Isaacson, Del.; John R. Ring, Fla.

Treasurer

David F. Linowes, N.Y.

It was moved and seconded that the nominations be closed and that the secretary cast one ballot for the candidates named. The motion carried, the ballot was cast and the members named were declared elected.

Mr. Witschey presented the names of the following members proposed for members of Council for three-year terms and for members of Council to fill vacancies on the Council created by the election of officers and by the resignation of a member.

For Council Members at Large:
(Three-year term)

Herman W. Bevis, N.Y.
Louis M. Kessler, Texas
Robert M. Trueblood, Ill.

For Members of Council:
(Three-year term)

Raymond R. Kohler, Alaska
Alexander M. Keith, Jr., Ark.
Tindall Cashion, Calif.
John F. Joyce, Calif.
Robert W. Ruggles, Calif.
Robert S. Warner, Calif.
Harlan H. Holben, Colo.
Bernard J. Zucker, Conn.
Richard L. Barnes, Fla.
Jack W. Lucas, Fla.
Roy L. Ward, Ga.
Valentine L. Tennent, Hawaii
George R. Catlett, Ill.
John P. Goedert, Ill.
George M. Horn, Ill.
John D. Harrington, Ind.
Sherman G. Shapiro, Me.
George O. Sparks, Jr., Md.
Ernest A. Berg, Mass.
Kenneth S. Reames, Mich.
Gerald C. Schroeder, Mich.
William M. Dolan, Jr., Minn.
James W. Clark, Mo.
George D. Anderson, Mont.
Walter C. Witthoff, Nebr.
W. Wayne Bunker, Nev.
John E. Rich, N.H.
George D. McCarthy, N.J.
Fred Rohn, Jr., N.J.
Edward J. Neff, N.M.
Matthew F. Blake, N.Y.
Philip L. Defliese, N.Y.
Malcolm M. Devore, N.Y.
Sidney B. Kahn, N.Y.
Eli Mason, N.Y.
R. Gerard Palmer, N.Y.
Mark E. Richardson, N.Y.
Baldwin E. Martz, N.D.
William B. Nicol, Ohio
John S. Schott, Ohio
Presley S. Ford, Jr., Okla.
Albert G. Metz, Jr., Pa.
Daniel L. McKnight, Jr., S.C.
Morris F. Anderson, S.D.
John S. Glenn, Jr., Tenn.
Don C. Chorpening, Texas
Robert J. Hibbetts, Texas
L. Ludwell Jones, Texas
Jordan B. Wolf, Texas
W. Charles Woodard, Texas

*See the October *CPA*, pages 16-18 and 21.

Barney Z. Goldberg, Vt.
Hayden Q. Anderson, Va.
W. Kenneth Woolley, Wash.
Willard H. Erwin, Jr., W. Va.
Bernard M. Vaughan, Wis.
Clyde W. Gaymon, Wyo.
Hein Christensen, V. I.

For Member of Council at Large:
(Two-year term)
Walter R. Staub, N.Y.
(One-year term)
Richard S. Claire, Ill.

For Members of Council:
(One-year term)
Hilliard R. Giffin, Calif.
Frank A. Gunnip, Del.

A motion was made and seconded that the nominations be closed and that the secretary cast one ballot for the election of the Council members named. The motion carried, the ballot was cast, and the members named were declared elected.

Election of Committee on Nominations

The chairman announced that the next order of business was the election of five members of the committee on nominations for the current year, stating that in accordance with the provisions of the By-Laws, the Council had elected Clifford V. Heimbucher, of California, and Kenneth B. Wackman, of New York, to serve on the nominating committee, the first named to act as temporary chairman until the committee elected a permanent chairman. The following were nominated:

Gordon S. Battelle, Ohio; Ben W. Brannon, Ga.; Curtis H. Cadenhead, Texas; Firman H. Hass, Mich.; William J. von Minden, N.J.

It was moved and seconded that the nominations be closed and that the secretary cast one ballot for the election of those named. The motion carried, the ballot was cast, and the members named were declared elected.

Amendments to the Code of Professional Ethics

At the request of the chairman, John Ring, chairman of the committee on professional ethics, presented for discussion by the members present, but not for action, the following proposed amendments to the Code of Professional Ethics. Under the provisions of Article XV, Section 5, of the By-Laws, following the annual meeting, the proposed amendments will be submitted to all members for a vote by mail, accompanied by a statement prepared by the secretary summarizing the arguments presented for and against each amendment:

Proposal No. 1

Amend Rule 2.01 to read as follows:

"A member or associate shall not express his opinion on financial statements unless they have been examined by him, or by a member or employee of his firm, on a basis consistent with the requirements of Rule 2.02.

"In obtaining sufficient information to warrant expression of an opinion he may utilize, in part, to the extent appropriate in the circumstances, the reports or other evidence of auditing work performed by another certified public accountant, or firm of public accountants, at least one of whom is a certified public accountant, who is authorized to practice in a state or territory of the United States or the District of Columbia, and whose independence and professional reputation he has ascertained to his satisfaction.

"A member or associate may also utilize, in part, to the extent appropriate in the circumstances, the work of public accountants in other countries, but the member or associate so doing must satisfy himself that the person or firm is qualified and independent, that such work is performed in accordance with generally accepted auditing standards, as prevailing in the United States, and that financial statements are prepared in accordance with generally accepted accounting principles, as prevailing in the United States, or are accompanied by the information necessary to bring the statements into accord with such principles."

Proposal No. 2

Amend Rule 2.03 to read as follows:

"A member or associate shall not permit his name to be associated with statements purporting to show financial position or results of operations in such a manner as to imply that he is acting as an independent public accountant unless he shall:

"(a) express an unqualified opinion; or

"(b) express a qualified opinion; or

"(c) express an adverse opinion; or

"(d) disclaim an opinion on the statements taken as a whole and indicate clearly his reasons therefor; or

"(e) when unaudited financial statements are presented on his stationery without his comments, disclose prominently on each page of the financial statements that they were not audited."

Proposal No. 3

Amend Rule 3.04 to read as follows:

"Commissions, brokerage, or other participation in the fees or profits of professional work shall not be allowed or paid directly or indirectly by a member or associate to any individual or firm not regularly engaged or employed in the practice of public accounting as a principal occupation.

"Commissions, brokerage, or other participation in the fees, charges or profits of work recommended or turned over to any individual or firm not regularly engaged or employed in the practice of public accounting as a principal occupation, as incident to services for clients, shall not be accepted directly or indirectly by a member or associate."

Proposal No. 4

Amend Rule 4.02 to read as follows:

"A member or associate shall not practice in the name of another unless he is in partnership with him or in his employ, nor shall he allow any person to practice in his name who is not in partnership with him or in his employ.

"This rule shall not prevent a partnership or its successors from continuing to practice under a firm name which consists of or includes the name or names of one or more former partners, nor shall it prevent the continuation of a partnership name for a reasonable period of time by the remaining partner practicing as a sole proprietor after the withdrawal or death of one or more partners."

Amendments to the By-Laws

J. Earl Pedelahore, chairman of the subcommittee of the executive committee, at the request of the chairman, presented for discussion of the members present, but not for action, the following proposed amendments to the By-Laws. Under the provisions of Article XV, Section 5, of the By-Laws, following the annual meeting, the proposed amendments will be submitted to all members for a vote by mail accompanied by a statement prepared by the secretary summarizing the arguments presented for and against each amendment:

Proposal No. 1

To prevent Council from becoming too large, freeze the total numbers for a vote by mail accompanied of Council within the meaning of Item (1) of Article VII, Section 1, paragraph (a), of the By-Laws, effective immediately after the 1966 annual meeting.

To give effect to this recommended change, it is proposed that Article VII, Section 1, paragraph (a), of the By-Laws be amended, effective immediately following the annual meeting of the Institute in 1966, in the following respects:

Change Items (1) and (2) to read in their entirety as follows:

"(1) Each state, territory, or possession of the United States or the District of Columbia having at least one member shall have at least one elected member of Council. Until the end of the annual meeting of the Institute in 1971, each such jurisdiction shall also have one additional elected member of Council for each five hundred members in excess of one member, based on membership figures and addresses according to the records of the Institute as of August 31, 1965. Effective immediately following the annual meeting of the Institute in 1971, and immediately following such annual meeting every fifth year thereafter, the total number of Council memberships resulting from the application of the preceding sentence shall be equitably allocated by the committee on nominations among the states, territories, and possessions of the United States and the District of Columbia in accordance with the number of Institute members in each such jurisdiction.

"(2) The determination of the number of members in each jurisdiction and the allocation of Council memberships under this paragraph (a) to each jurisdiction shall be made by the committee on nominations at least four months prior to the annual meeting of the Institute to be held in 1971 and each fifth year thereafter, based on membership figures and addresses according to the records of the Institute as of August 31 preceding the date of such determinations, and shall become effective immediately following the first annual meeting held after the making of such determinations."

Change Item (3) as follows: Delete the words "in any year" on line 1. Delete the words "for the immediately preceding year," on lines 4 and 5, and insert in place thereof the following: "by the immediately preceding allocation,"

Proposal No. 2

To increase the number of "at large" members of Council from nine to twenty-one.

To give effect to this recommended change it is proposed that Article VII, Section 1, paragraph (b), of the By-Laws be amended, effective April 1, 1965, to read in its entirety as follows:

"(b) Twenty-one members to be elected at large without regard to the jurisdiction in which they reside. At the annual meeting in 1965, seven of such members shall be elected for a term of three years or until their successors shall have been elected, four of such members shall be elected for a term of two years or until their successors shall have been elected, and four of such members shall be elected for a term of one year or until their successors shall have been elected. At the annual meeting in 1966, and at each annual meeting thereafter, seven of such members shall be elected for a term of three years or until their successors shall have been elected; and"

Proposal No. 3

To provide that state societies may designate as a Council member any Institute member (rather than only the president or president-elect of such state society, as the By-Laws presently provide) for a maximum of six one-year terms.

To give effect to this recommended change it is proposed that Article VII, Section 1, paragraph (e), of the By-Laws be amended, effective April 1, 1965, by deleting the present wording in its entirety and substituting therefor the following:

"(e) One member of the Institute designed by the society of certified public accountants of each state, territory, or possession of the United States and the District of Columbia, who shall serve for a term of one year or until his successor shall have been designated by such society but who shall not be eligible to serve for more than six successive terms under this paragraph (e); and"

Proposal No. 4

To permit the election to the executive committee of former members of Council as well as present members of Council, and give such former members of Council who are elected to the executive committee "*ex officio*" status as members of Council during their service on the executive committee.

To give effect to these recommended changes it is proposed that Article VII, Section 1, and Article IX, Section 2(b), of the By-Laws be amended, effective April 1, 1965, as follows:

Change the designation of the last paragraph of Article VII, Section 1, from "(f)" to "(g)" and insert a new paragraph (f) to read as follows:

"(f) Members of the executive committee who are not members of Council by reason of other paragraphs of this section."

Change Article IX, Section 2(b), by inserting after the word "members" in line 3 the words "or former members."

Vote of Appreciation

A motion was made and seconded that a vote of appreciation be extended to the general chairman of the annual meeting committee and to all those who assisted him in planning the entertainment and hospitality for the meeting. The motion was carried.

Adjournment

The meeting adjourned sine die at 3:40 P.M.

Top executives urged to participate in accounting principles effort

Top executives were asked for their active co-operation and support in narrowing the areas of difference in accounting principles in a letter which President Thomas D. Flynn sent this month to the presidents of all corporations listed on the New York and American Stock Exchanges.

"It would be unfortunate," he said, "if mounting criticism should result in a weakening of confidence on the part of the investing public in the reliability of the information which corporations issue to their stockholders."

Enclosed with the letter was a copy of John L. Carey's article, "Management's Stake in Accounting Principles," which appeared in the September issue of *Financial Executive*.

The article traces both the progress in accounting principles and the increase in public interest in this area.

Mr. Carey's article then:

• Calls upon management—not only financial executives, but presidents and chairmen as well—to participate in determining "the best accounting practices in the difficult and controversial areas."

• Urges that management not limit itself to the internal situation of the company but consider accounting practices with regard to the company's position as "part of an industry, which in turn is part of the free-enterprise system."

• Suggests that "the views of management would be more influential—and its influence would be welcomed by all concerned—if a consensus could be developed on a proposed APB Opinion through an organization such as the Financial Executives Institute."

Copies of the reprint are available to members who request them from the Institute.

PD Tax Courses Reflect Changes in '64 Revenue Act

PD courses in the tax area have been revised to include all the changes in the course materials resulting from the passage of the 1964 tax law. Courses available for state society presentation are:

1. Problems of the Closely Held Corporation
2. Purchase, Sale, or Liquidation of a Corporate Business
3. Pension and Profit Sharing Plans
4. Real Estate Problems
5. Estate Planning and the CPA
6. Problems of Partnership (a new two-day course)

CPA

NOVEMBER 1964

The CPA is the membership bulletin of the American Institute of Certified Public Accountants, Inc.
666 FIFTH AVENUE, NEW YORK, N. Y. 10019

Second class postage paid at New York, N. Y.